

**OFFICIAL STATEMENT  
TENNESSEE STATE SCHOOL BOND AUTHORITY  
HIGHER EDUCATIONAL FACILITIES  
SECOND PROGRAM BONDS  
\$53,820,000 2006 Series A  
\$12,485,000 2006 Series B**

**Dated: June 1, 2006****Due: May 1 (as shown on inside front cover)**

This Official Statement has been prepared by the Tennessee State School Bond Authority (the "Authority") to provide information relating to the Authority's Higher Educational Facilities Second Program Bonds, 2006 Series A and 2006 Series B (the "Offered Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Offered Bonds, a prospective investor should read the Official Statement in its entirety.

<b>Security</b>	The Offered Bonds are special obligations of the Authority payable from and secured by Annual Financing Charges and Legislative Appropriations payable to the Authority by the Board of Trustees of The University of Tennessee and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee and other funds as more fully described herein. (See "Security and Sources of Payment for the Bonds" herein).
<b>Purpose</b>	See "Purposes of the Offered Bonds" herein.
<b>Bond Insurance</b>	<p>The scheduled payment of principal of and interest on the 2006A Bonds when due will be guaranteed under the insurance policy to the issued concurrently with the delivery of the 2006A Bonds by FINANCIAL SECURITY ASSURANCE INC.</p> <p>The 2006B Bonds are not insured.</p> <p>See Appendix I.</p>
<b>Interest Payment Dates</b>	November 1 and May 1, beginning November 1, 2006.
<b>Interest Rates and Yields</b>	See inside front cover.
<b>Denominations</b>	\$5,000 and integral multiples thereof.
<b>Book-Entry Only System</b>	The Depository Trust Company. See Appendix F.
<b>Redemption*</b>	<p>2006A Bonds maturing on or after May 1, 2015 are subject to optional redemption by the Authority on or after May 1, 2014 at 101% declining by 0.5% per year to 100% on May 1, 2016.</p> <p>Certain 2006A Bonds are term bonds and as such are subject to mandatory sinking fund redemption at par.</p> <p>2006B Bonds are not subject to optional redemption or mandatory redemption.</p> <p>See "Description of the Offered Bonds –Redemption" herein.</p>
<b>Tax Exemption</b>	<p>Interest on the Offered Bonds is not included in gross income for Federal income tax purposes to the extent and subject to the conditions, limitations and continuing compliance with tax covenants as described herein.</p> <p>The Offered Bonds and the interest thereon are exempt from Tennessee taxes, subject to certain exceptions.</p> <p>See "Tax Matters" herein.</p>
<b>Closing &amp; Delivery Date</b>	On or about June 29, 2006.
<b>Trustee/Paying Agent</b>	Regions Bank, Nashville, Tennessee
<b>Bond Counsel to Authority</b>	Hawkins Delafield & Wood LLP, New York, New York
<b>Issuer Contact</b>	Director of Bond Finance, State of Tennessee, (615) 747-5370.

**Dated: June 14, 2006**

# TENNESSEE STATE SCHOOL BOND AUTHORITY

## Higher Educational Facilities Second Program Bonds

### Maturities, Amounts, Interest Rates, Prices and/or Yields

#### \$53,820,000 2006 Series A

<u>Due May 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yields</u>	<u>Cusip 880557**</u>
2007	\$2,015,000	4.000%	3.560%	K85
2008	1,710,000	4.000%	3.600%	K93
2009	1,785,000	4.000%	3.620%	L27
2010	1,855,000	4.000%	3.650%	L35
2011	1,935,000	4.000%	3.690%	L43
2012	2,015,000	4.000%	3.770%	L50
2013	2,100,000	4.000%	3.840%	L68
2014	2,190,000	4.000%	3.920%	L76
2015	2,280,000	4.000%	3.980%	L84
2016	2,375,000	4.000%	4.030%	L92
2017	2,475,000	4.000%	4.120%	M26
2018	2,580,000	4.250%	4.280%	M34
2019	2,695,000	4.375%	4.340% *	M42
2020	2,820,000	4.500%	4.390% *	M59
2021	2,950,000	4.450%	4.470%	M67
2022	2,145,000	4.500%	4.510%	M75
2023	2,250,000	4.500%	4.550%	M83
2024	2,355,000	4.550%	4.570%	M91
2025	2,465,000	4.550%	4.590%	N25
2026	2,580,000	4.600%	4.630%	N33

\$3,655,000 4.500% Term Bonds Due May 1, 2031 - Yield 4.500% Cusip 880557N41\*\*

\$4,590,000 4.500% Term Bonds Due May 1, 2036 - Yield 4.561% Cusip 880557N58\*\*

#### \$12,485,000 2006 Series B

<u>Due May 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yields</u>	<u>Cusip 880557**</u>
2007	2,885,000	4.000%	3.600%	N66
2008	2,920,000	4.000%	3.650%	N74
2009	3,040,000	4.000%	3.670%	N82
2010	3,060,000	4.000%	3.700%	N90
2011	580,000	4.000%	3.740%	P23

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\*Priced to May 1, 2016 call date

\*\*These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw Hill Companies, Inc., and are included solely for the convenience of the Bondholders. Neither the Authority nor the Underwriters are responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Offered Bonds or as indicated herein.

This Official Statement does not constitute an offering of any security other than the Offered Bonds specifically offered hereby. No dealer, broker or other person has been authorized by the Authority to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Offered Bonds by any persons in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

Certain information set forth herein has been provided by the Authority. Certain other information set forth herein has been obtained by the Authority from sources believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof.

In making an investment decision, investors must rely on their own examination of the Authority and the terms of the offering, including the merits and risks involved.

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## **TENNESSEE STATE SCHOOL BOND AUTHORITY**

Phil Bredesen, Governor, *Chairman*  
John G. Morgan, Comptroller of the Treasury, *Secretary*  
Riley C. Darnell, Secretary of State  
Dale Sims, State Treasurer  
Dave Goetz, Commissioner of Finance and Administration  
Dr. John Petersen, President of the University of Tennessee  
Dr. Charles Manning, Chancellor of the Tennessee Board of Regents

## **STAFF**

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Attorney General and Reporter of the State of Tennessee, Nashville, Tennessee

## **FINANCIAL ADVISOR**

Public Financial Management, Inc., Memphis, Tennessee

**OFFICIAL STATEMENT**  
**Tennessee State School Bond Authority**  
**HIGHER EDUCATIONAL FACILITIES SECOND PROGRAM BONDS**  
**\$53,820,000 2006 Series A**  
**\$12,485,000 2006 Series B**

**INTRODUCTION**

The purpose of this Official Statement (including the cover page and inside cover page hereof and the Appendices hereto, including the financial information in Appendix A) is to set forth information concerning (i) the Tennessee State School Bond Authority (the “Authority”), (ii) the Board of Trustees of The University of Tennessee (the “Board of Trustees”), (iii) the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee (the “Board of Regents”), (iv) The University of Tennessee including all of its branches and divisions wherever located (collectively, with respect to the Board of Trustees, an “Institution”), and institutions of higher education under the supervision of the Board of Regents (each, with respect to the Board of Regents, an “Institution”), and (v) the Authority's \$53,820,000 aggregate principal amount of Higher Educational Facilities Second Program Bonds, 2006 Series A (the “2006A Bonds”) and \$12,485,000 aggregate principal amount of Higher Education Facilities Program Bonds, 2006 Series B (the “2006B Bonds”). The 2006A Bonds and the 2006B Bonds are referred to collectively as the “Offered Bonds”. The Board of Trustees and the Board of Regents are referred to collectively as the “Boards”.

The capitalization of any word not conventionally capitalized and not otherwise defined herein indicates that such word is defined in the Glossary of Certain Terms attached hereto as Appendix C, in the Resolution (as defined herein), or in the Financing Agreements referred to herein.

The Offered Bonds will be issued pursuant to the Tennessee State School Bond Authority Act as amended, Sections 49-3-1201 *et seq.*, Tennessee Code Annotated (the “Act”), the Higher Educational Facilities Second Program General Bond Resolution adopted by the Authority on April 27, 1998 authorizing the issuance thereunder from time to time of Higher Educational Facilities Second Program Bonds (the “Bonds”) and a Supplemental Resolution adopted by the Authority on May 24, 2006 authorizing and providing for the issuance of the Offered Bonds (such General Bond Resolution as amended and supplemented from time to time, including by such Supplemental Resolution, the “Resolution”). For a “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION”, see Appendix E. For the outstanding indebtedness of the Authority, see “The AUTHORITY-Outstanding Indebtedness of the Authority”.

The Act empowers the Authority, among other things, to issue its bonds and notes to obtain funds, or to refund its bonds or notes issued to obtain funds, to finance higher educational facilities (as defined in Appendix C, the “Projects”) for the purposes of the Institutions and the Boards. The Authority and each Board has entered into a separate Second Program Financing Agreement dated as of November 1, 1997, as amended, (each, a “Financing Agreement”) under which the Authority agrees to finance Projects and the respective Boards agree to make payments to the Authority of, among other amounts, (i) Annual Financing Charges for the payment of debt service on the Bonds and certain other purposes and (ii), if necessary in connection with Bonds issued for a Project for an Institution, amounts appropriated by the General Assembly of the State (Legislative Appropriations) for the operation and maintenance of the related Institution.

For a “SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS”, see Appendix D. The Financing Agreements and the Resolution constitute the second and only other Authority loan program for the Boards. The first program (the “First Program”), which commenced in 1967, is no longer utilized, but any payments by the Boards thereunder will be superior to the Boards’ payments under the second program (the “Second Program”) which will be funded by Bonds, including the Offered Bonds, as described under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – First Program; Subordination of Second Program; No Additional First Program Debt”.

For a description of the governmental entity termination provisions of the Tennessee Governmental Entity Review Law, as amended, Sections 4-29-101 *et seq.*, Tennessee Code Annotated (the “Governmental Entity Review Law”) and their effect on the Authority and the Boards, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS Termination of Existence”.

The Offered Bonds will be issued to pay costs of certain Projects and to retire Commercial Paper heretofore issued pursuant to the Act and a Commercial Paper Resolution adopted by the Authority on November 18, 1997 for certain Projects (all Commercial Paper issued under such resolution, the “Commercial Paper”). For a description of the

Commercial Paper program, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper”.

The Offered Bonds will be payable and secured under the Resolution on a parity with all other Bonds heretofore and hereafter issued pursuant to the Act and the Resolution, except as expressly provided in or permitted by the Resolution. Currently, the aggregate principal amount of Bonds which may be issued under the Resolution is not limited by law or Resolution.

The Bonds, including the Offered Bonds, constitute special obligations of the Authority. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds shall be payable solely from and secured by the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution. The Resolution establishes a Debt Service Reserve Fund, which is required to be maintained at the level of the Debt Service Reserve Requirement as provided in the Resolution.

Payments by the Boards of Annual Financing Charges, Legislative Appropriations and other amounts under the Financing Agreements are subordinate in all respects to the payments by the Boards of similar obligations under the First Program Financing Agreements which support the bonds and notes issued by the Authority under the First Program General Bond Resolution.

As of June 1, 2006, there was \$43,090,155 aggregate principal amount of Bonds outstanding under the First Program General Bond Resolution, of which \$22,655,000 have been financially defeased. No additional First Program bonds or notes may be issued. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - First Program; Subordination of Second Program; No Additional First Program Debt” and “THE AUTHORITY – Outstanding Indebtedness of the Authority”.

As of June 29, 2006, giving effect to the issuance of the Offered Bonds, on a pro forma basis \$511,395,000 aggregate principal amount of bonds will be outstanding under the Second Program General Bond Resolution. See “PURPOSES OF THE OFFERED BONDS” and “THE AUTHORITY –Outstanding Indebtedness of the Authority”.

Under each Financing Agreement, the relevant Board covenants and agrees to establish and collect Fees and Charges at each Institution at a level sufficient to produce in each Fiscal Year no less than two times the amount required for the payment of the aggregate (without duplication) of (i) all Annual Financing Charges in such Fiscal Year payable with respect to all Projects for the Institution, plus (ii) all First Program Annual Financing Charges in such Fiscal Year payable with respect to all First Program Projects for the Institution, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges in such Fiscal Year with respect to the Institution, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges in such Fiscal Year with respect to the Institution.

For a description of the security for the Offered Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS”.

## PURPOSES OF THE OFFERED BONDS

### Application of 2006A Bond and 2006B Bond Proceeds

The Offered Bonds are being issued for the purposes of (i) retiring at maturity the principal of Commercial Paper heretofore issued for certain Projects identified below, (ii) financing a portion of the costs of certain other Projects identified below, (iii) satisfying Debt Service Reserve Requirements, and (iv) paying costs of issuance of the Offered Bonds. The Commercial Paper to be retired with proceeds of the Offered Bonds matures on various dates and in various principal amounts through July 18, 2006. The interest on such Commercial Paper will be paid at maturity with other available funds.

The following table shows the Projects to be financed and refinanced with the proceeds of the 2006A Bonds and the principal amount of the 2006A Bonds for each Project:

<b><u>Institution</u></b>	<b><u>Project</u></b>	<b><u>Amount</u></b>
University of Tennessee - Martin	Student Housing	\$ 16,961,289
University of Tennessee - Knoxville	Clement Hall Renovations	9,333,495
East Tennessee State University	Residential Facilities Renovations	3,306,203
East Tennessee State University	Energy Performance Contract	3,029,604
Middle Tennessee State University	Smith Hall Complex Renovation	11,712,423
Middle Tennessee State University	Building Acquisition	2,252,389
Middle Tennessee State University	Printing & Publication Bldg	559,467
Tennessee State University	Energy Savings Performance Contract	2,373,190
Pellissippi State Technical Community College	Energy Savings Performance Contract	994,720
Northeast State Technical Community College	Energy Savings Performance Contract	479,688
Roane State Community College	Energy Savings Performance Contract	1,691,529
Walters State Community College	Energy Savings Performance Contract	1,126,003
		<u>\$ 53,820,000</u>

The following table shows the Projects to be financed and refinanced with the proceeds of the 2006B Bonds and the principal amount of the 2006B Bonds for each project:

<b><u>Institution</u></b>	<b><u>Project</u></b>	<b><u>Amount</u></b>
University of Tennessee - Chattanooga	Telephone Purchase	\$ 701,933
University of Tennessee - Knoxville	Vet Teaching Hospital - Radiology Equipment	329,950
East Tennessee State University	Admin Computing Equip & Assoc. Software	934,138
Middle Tennessee State University	Property Acquisition	301,911
Middle Tennessee State University	Admin Computing Equip & Assoc. Software	538,098
University of Memphis	Athletic Training Ctr. Add. & Mod.	1,671,290
University of Memphis	Admin Computing Equip & Assoc. Software	1,076,356
Tennessee Technological University	Admin Computing Equip & Assoc. Software	834,582
Chattanooga State Technical Community College	Admin Computing Equip & Assoc. Software	756,516
Pellissippi State Technical Community College	Admin Computing Equip & Assoc. Software	723,111
Volunteer State Community College	Admin Computing Equip & Assoc. Software	444,104
Roane State Community College	Admin Computing Equip & Assoc. Software	622,661
Walters State Community College	Admin Computing Equip & Assoc. Software	684,633
Northeast State Technical Community College	Admin Computing Equip & Assoc. Software	604,647
Jackson State Community College	Admin Computing Equip & Assoc. Software	606,351
Motlow State Community College	Admin Computing Equip & Assoc. Software	620,317
Cleveland State Community College	Admin Computing Equip & Assoc. Software	612,764
Dyersburg State Community College	Admin Computing Equip & Assoc. Software	421,638
		<u>\$ 12,485,000</u>

The sources and application of funds in connection with the issuance of the Offered Bonds shall be as follows:

	2006A Bonds	2006B Bonds	Total
<b>Sources of Funds:</b>			
Par Amount of Bonds	\$53,820,000	\$12,485,000	\$66,305,000
Accrued Interest	179,039	38,842	217,881
Net Original Issue Premium	41,313	92,940	134,253
Total	<u>\$54,040,352</u>	<u>\$12,616,782</u>	<u>\$66,657,134</u>
<b>Uses of Funds:</b>			
Project Construction Accounts (approx.)	\$9,921,088	\$278,822	\$10,199,910
Retirement of Commercial Paper (approx.)	43,215,016	12,157,050	55,372,066
Accrued Interest	179,039	38,842	217,881
Reserve Fund Credit Facility	45,313	37,371	82,684
Underwriters' Discount	469,097	55,796	524,893
Costs of Issuance	210,799	48,901	259,700
Total	<u>\$54,040,352</u>	<u>\$12,616,782</u>	<u>\$66,657,134</u>

## DESCRIPTION OF THE OFFERED BONDS

### General

The Offered Bonds will be dated as of June 1, 2006 and will mature at the times and in the principal amounts as set forth on the inside cover page hereof. Interest on the Offered Bonds will be payable semi-annually on May 1 and November 1, commencing November 1, 2006. The Offered Bonds will be offered in authorized denominations of \$5,000 or integral multiples thereof.

Upon initial issuance, the Offered Bonds will be available only in book-entry form. The Depository Trust Company, New York, New York ("DTC") will act as initial securities depository for the Offered Bonds and the ownership of one fully registered bond for each maturity of the Offered Bonds in the aggregate principal amount of that maturity will be registered in the name of Cede & Co., as nominee of DTC, and deposited with DTC. Beneficial owners of Offered Bonds will not receive physical delivery of bond certificates except under limited circumstances. See Appendix F - "BOOK-ENTRY ONLY SYSTEM" for a description of DTC and its book-entry only system.

### Fiduciaries

Regions Bank, Nashville, Tennessee, is the successor Trustee under the Resolution, and the Paying Agent and Registrar for the Offered Bonds.

### Redemption

*Optional Redemption.* At the option of the Authority, the 2006A Bonds maturing on or after May 1, 2015 are subject to redemption prior to their stated maturities from any available moneys, at any time on or after May 1, 2014 as a whole, or in part from time to time in any order of maturity determined by the Authority, at a Redemption Price equal to 101% (declining by 0.5% per year to 100% in 2016) of the principal amount of such 2006A Bonds or portions thereof to be redeemed, together with the interest accrued on such principal amount to the date fixed for redemption.

The 2006B Bonds are not subject to redemption prior to their stated maturities.



*Sinking Fund Redemption.* The 2006A Bonds maturing on May 1, 2031 are Term Bonds subject to redemption in part on May 1 in each of the years in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund Installments which are required to be accumulated in the Debt Service Fund in amounts sufficient to redeem on May 1 of each year shown below the principal amount of such 2006A Bonds specified for such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2027	\$665,000	2030	\$765,000
2028	695,000	2031	800,000
2029	730,000		

The 2006A Bonds maturing on May 1, 2036 are Term Bonds subject to redemption in part on May 1 in each of the years in the respective principal amounts set forth below at a Redemption Price equal to the principal amount or portion thereof to be redeemed, together with the interest accrued thereon to the date fixed for redemption, from Sinking Fund Installments which are required to be accumulated in the Debt Service Fund in amounts sufficient to redeem on May 1 of each year shown below the principal amount of such 2006A Bonds specified for such year:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2032	\$835,000	2035	\$ 960,000
2033	875,000	2036	1,005,000
2034	915,000		

Satisfaction of any Sinking Fund Installment for any Term Bonds also may be made by purchase or redemption of such Term Bonds, if the Authority so directs the Registrar, prior to 45 days preceding the due date of such Sinking Fund Installment.

*Selection of Bonds to be Redeemed.* If less than all of the 2006A Bonds of a maturity are to be redeemed, the particular 2006A Bonds or portions thereof of such maturity to be redeemed shall be selected by the Registrar in any manner which it deems fair and appropriate. In such event, for so long as a book-entry only system is in effect with respect to the 2006A Bonds, DTC or its successor and Direct DTC Participants and Indirect DTC Participants will determine the particular ownership interests of 2006A Bonds of such maturity to be redeemed. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to make such determination will not affect the sufficiency or the validity of the redemption of 2006A Bonds. See Appendix F- "BOOK-ENTRY ONLY SYSTEM".

*Notice of Redemption.* Notice of redemption is to be mailed, at least 15 days but not more than 30 days prior to the redemption date, to the Owner of each 2006A Bond to be redeemed at the address that appears on the registration books, but failure to receive any such notice shall not affect the validity of the redemption proceedings. Any notice of redemption may provide that such redemption is conditional on the availability of sufficient moneys to pay the Redemption Price, plus interest accrued and unpaid to the redemption date. For so long as a book-entry only system is in effect with respect to the 2006A Bonds, the Registrar will give notice of redemption to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a Direct DTC Participant or Indirect DTC Participant, to notify a beneficial owner of a 2006A Bond of any redemption will not affect the sufficiency or the validity of the redemption of such 2006A Bond. See Appendix F- "BOOK-ENTRY ONLY SYSTEM".

Neither the Authority, nor the Trustee or Registrar, can give any assurance that DTC or its successor, the Direct DTC Participants or the Indirect DTC Participants will distribute such redemption notices to the beneficial owners of the 2006A Bonds, or that they will do so on a timely basis.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Offered Bonds will be issued under the second of two Authority loan programs for the Boards. The First Program, which commenced in 1967, is no longer utilized, but any payments by the Boards thereunder will be superior to the Boards' payments under the Second Program, as described below under "First Program; Subordination of Second Program; No Additional First Program Debt".

The Bonds, including the Offered Bonds, constitute special obligations of the Authority. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds shall be payable solely from the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution. The Annual Financing Charges and Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, and all moneys and Investment Obligations credited to the Funds and Accounts established by the Resolution, are pledged for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds in accordance with the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. All covenants and agreements set forth in the Resolution to be performed on behalf of the Authority shall be for the equal benefit, protection and security of the Owners of all of the Bonds, except as expressly provided in or permitted by the Resolution.

**THE STATE OF TENNESSEE IS NOT LIABLE ON THE BONDS AND THE BONDS ARE NOT A DEBT OF THE STATE OF TENNESSEE. THE AUTHORITY HAS NO TAXING POWER.**

### **Bond Insurance**

The scheduled payment of principal and interest on the 2006A Bonds when due will be guaranteed under municipal bond insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the 2006A Bonds by Financial Security Assurance Inc. (the "Insurer"). For a description of the Insurer and a specimen of the Bond Insurance Policy, see Appendix I.

The 2006B Bonds are not insured.

### **Flow of Funds**

All Annual Financing Charges and Legislative Appropriations held or collected by the Authority are required by the Resolution to be deposited to its General Fund, which shall be held by the State Treasurer or, at the direction of the State Treasurer, a separate custodian. However, in lieu of such deposit, the Authority may direct and cause any Board to transmit directly to the Trustee any amount of Annual Financing Charges and Legislative Appropriations payable by such Board that is required to be transferred by the Authority to the Trustee in the amounts and by the times required for purposes of the Debt Service Fund or Debt Service Reserve Fund.

All moneys credited to the General Fund shall be applied by the Authority in the following manner and order:

*First*, the Authority shall transfer to the Debt Service Fund such sums as are required to be deposited therein under the Resolution after giving effect to any such direct deposit; and

*Second*, the Authority shall transfer to the Debt Service Reserve Fund such sums as are required to be deposited therein pursuant to the Resolution after giving effect to any such direct deposit; provided, however, that no transfer shall be required prior to the date required, notwithstanding that as a result, lower priority transfers (described in the following paragraph) may be made at any time prior to higher priority transfers that could be but are not required to be made at the same time.

Any moneys credited to the General Fund in any month and not applied in such month, or required or otherwise expected to be applied thereafter in such month or in the next succeeding month, may be used for any lawful purpose of the Authority including, but not limited to, the payment of the principal of and premium, if any, and interest on Subordinated Obligations, the establishment of reserves for such payment, the payment or reimbursement of Administrative Expenses of the Authority, or the purchase or redemption of Bonds or Subordinated Obligations.

The Debt Service Fund shall be held by the Trustee or at the option of the Authority, unless there shall exist an

Event of Default, by the State Treasurer or, at the direction of the State Treasurer, a separate custodian. Moneys credited to the Debt Service Fund shall be deposited in the following amounts and order of priority, except that deposits from excess Construction Fund moneys shall be applied as directed by the Authority:

*First*, at least one Business Day prior to each interest payment date, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the interest becoming due on the Outstanding Bonds on such interest payment date;

*Second*, at least one Business Day prior to each principal payment date, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the principal amount of Bonds (including the principal amount of any Put Bonds tendered for payment by the Authority and not purchased in lieu of redemption prior to the redemption date thereof) of the Outstanding Serial Bonds becoming due on such principal payment date; and

*Third*, at least one Business Day prior to each Sinking Fund Payment Date for the Term Bonds, there shall be deposited in the Debt Service Fund an amount equal to, and which shall be applied to the payment of, the Sinking Fund Installments becoming due upon the redemption of such Term Bonds on such Sinking Fund Payment Date.

### **Debt Service Reserve Fund**

The Resolution establishes a Debt Service Reserve Fund, which shall be held by the Trustee or at the option of the Authority, unless there shall exist an Event of Default, by the State Treasurer or, at the direction of the State Treasurer, a separate custodian.

Within the Debt Service Reserve Fund there shall be established a separate Debt Service Reserve Account for each of the Projects. At the time of or prior to the delivery of each Series of Bonds, the Authority shall pay into each Debt Service Reserve Account from the proceeds of the sale of Bonds issued with respect to the Project to which such Debt Service Reserve Account relates, or from any other available source, a sum of money equal to the Debt Service Reserve Requirement with respect to the Bonds issued for such Project. In the event that moneys on deposit in a Debt Service Reserve Account are transferred to the Debt Service Fund as described below, then, within 5 months of the date of such transfer, the Authority shall deposit or cause to be deposited into such Debt Service Reserve Account moneys sufficient to cause the amount of moneys and value of Investment Obligations then on deposit in such Debt Service Reserve Account to be equal to the Debt Service Reserve Requirement applicable thereto.

Moneys credited to a Debt Service Reserve Account shall be used, except as hereinafter described, solely for the payment of the principal and Sinking Fund Installments, if any, and interest on the Bonds issued with respect to the Project to which such Account relates as the same become due and payable and with respect to which there is insufficient moneys available in the Debt Service Fund. If there are insufficient moneys for such purpose in the Debt Service Reserve Account with respect to the Project to which such Account relates, then moneys and Investment Obligations on deposit in or credited to the Debt Service Reserve Accounts which relate to other Projects of the Institution for which such Project was undertaken shall be applied on a pro rata basis (based on Debt Service Reserve Requirements) to cure such deficiency. If after making such application a deficiency still exists in the Debt Service Reserve Account with respect to a particular Project, then moneys and Investment Obligations on deposit in or credited to the Debt Service Reserve Accounts for (i) first, all Projects undertaken for all other Institutions under the supervision of a Board and (ii) if such moneys and Investment Obligations are insufficient, then all Projects undertaken for all Institutions under the supervision of the other Board, may be applied on a pro rata basis (based on Debt Service Reserve Requirements) to cure such deficiency. Moneys applied pursuant to the previous two sentences shall be restored to the respective Accounts from which they were obtained in the inverse order from which they were withdrawn and such Accounts are to be restored to the Debt Service Reserve Requirement therefor before moneys are credited to the Debt Service Reserve Account related to the Project for which there were insufficient moneys available in the Debt Service Fund.

Any amounts in a Debt Service Reserve Account at the end of any Bond Year in excess of the Debt Service Reserve Requirement with respect to the Bonds issued for a Project to which such Account relates shall be withdrawn from such Account and transferred to the Debt Service Fund and applied to the payment of the principal and Sinking Fund Installments of and interest on the Bonds relating to such Project, unless otherwise directed by the Authority.

If the Authority determines at any time that the moneys and value of Investment Obligations credited to any Debt Service Reserve Account are in excess of the Debt Service Reserve Requirement for the Bonds issued for the related Project, the Authority may transfer or, if applicable, direct the Trustee to transfer such excess to the Debt Service Fund and apply such excess to the payment of the principal and Sinking Fund Installments of and interest on Bonds relating to such Project.

In the event of the refunding of any Bonds, the Authority may withdraw from the Debt Service Reserve Fund all or any portion of the amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with a Paying Agent to be held for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on the Bonds being refunded or apply such amounts to pay the costs of issuance of the Refunding Bonds, or, if not so applied, such amounts shall be applied in the same manner as provided for excess amounts in the Debt Service Reserve Fund; provided, however, that such withdrawal shall not be made unless (i) upon such refunding, the Bonds being refunded shall be deemed to have been paid within the meaning and with the effect provided in the Resolution, (ii) the amount and value of Investment Obligations remaining in such Debt Service Reserve Account shall not be less than the Debt Service Reserve Requirement for the Bonds issued for the related Project, and (iii) at the time of such withdrawal, there shall exist no deficiency in the Debt Service Fund.

In lieu of cash or Investment Obligations, the Authority may satisfy the Debt Service Reserve Requirement in part or in whole by maintaining a Reserve Fund Credit Facility. If a disbursement is made pursuant to a Reserve Fund Credit Facility, the Authority shall within 12 months either (i) reinstate the maximum limits of such Reserve Fund Credit Facility or (ii) deposit into the Debt Service Reserve Fund funds in the amount of the disbursement made under such Reserve Fund Credit Facility, or a combination of such alternatives, so that the amount of moneys and value of Investment Obligations and/or Reserve Fund Credit Facility in each Debt Service Reserve Account equals the Debt Service Reserve Requirement for the Bonds issued for the related Project. If a Debt Service Reserve Account is funded with any combination of moneys, Investment Obligations and/or one or more Reserve Fund Credit Facilities, then any withdrawal to satisfy a deficiency in the Debt Service Fund shall be made from such (i) moneys or Investment Obligations and (ii) Reserve Fund Credit Facilities (and among such Reserve Fund Credit Facilities) on a pro rata basis, except or unless otherwise required or permitted by the provider or providers of such Reserve Fund Credit Facilities.

#### *Debt Service Reserve Fund Credit Facility*

The Authority has obtained a commitment from Financial Security Assurance Inc. (the "Insurer") to issue an insurance policy (the "Debt Service Reserve Insurance Policy"), constituting a Reserve Fund Credit Facility under the Resolution, in lieu of a sum of money equal to the Debt Service Reserve Requirement for each issue of the Offered Bonds.

Each Debt Service Reserve Insurance Policy will be issued in the face amount equal to the Debt Service Reserve Requirement for the related series of the Offered Bonds and the premium therefor will be fully paid by the Authority at the time of delivery of the Offered Bonds. The coverage of each Debt Service Reserve Insurance Policy will decrease to the extent the Debt Service Reserve Requirement for the related series of the Offered Bonds decreases or to the extent of any draw on the Debt Service Reserve Insurance Policy that is not reimbursed by the Authority, as provided in the Debt Service Reserve Insurance Policy.

#### **Additional Bonds**

Additional Bonds may be issued under the Resolution from time to time in Series, including refunding Outstanding Bonds, but only upon, among other things:

1. Receipt by the Trustee and the Registrar of a Counsel's Opinion to the effect that (i) the Authority has the right and power under the Act as amended to the date of such Opinion to adopt the Resolution (with such approvals as may be required by the Act as so amended), and the Resolution has been duly and lawfully adopted by the Authority (and such approvals given), is in full force and effect and is valid and binding upon the Authority; (ii) the Resolution creates the valid pledge which it purports to create of the Annual Financing Charges, Legislative Appropriations, and all rights under the Agreements or otherwise to receive the same, moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution; and (iii) the Bonds of such Series are valid and binding obligations of the Authority as provided in the Resolution and entitled to the benefits of the Resolution and of the Act as amended to the date of such Counsel's Opinion, and such Bonds have been duly and validly authorized and

issued in accordance with law, including the Act as amended to the date of such Counsel's Opinion, and in accordance with the Resolution.

2. Receipt by the Trustee and the Registrar of a certificate of the Authority stating that:

- (a) the principal amount of the Bonds then to be issued, together with the principal amount of the Bonds theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law;
- (b) the Authority is not in default in the performance of any other covenants, conditions, agreements or provisions contained in the Resolution, including but not limited to that there is no deficiency in the amounts required by the Resolution to be paid into the Debt Service Fund except, in the case of Refunding Bonds, if, upon the application of the proceeds of such Bonds or upon the issuance and delivery of such Bonds, all such defaults shall be cured;
- (c) the amount on deposit in the Debt Service Reserve Fund, upon the issuance and delivery of any such Series of Bonds, shall not be less than the Debt Service Reserve Requirement;
- (d) the Financing Agreements obligate the Boards to pay, in the aggregate, Annual Financing Charges with respect to Projects for which Bonds have been issued and the additional Bonds being issued sufficient in amount, together with capitalized interest, to pay as the same shall become due the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, of and interest on the Bonds then Outstanding and the additional Bonds being issued; and
- (e) the provisions of the Act authorizing the Boards to deduct from amounts appropriated by the General Assembly of the State for the operation and maintenance of the Institution for which each Project is undertaken and pay to the Authority such amount or amounts as may be required to make up any deficiencies in the Fees and Charges and other moneys available for the purpose of paying Annual Financing Charges due the Authority have not been repealed or amended to the detriment of Bondowners.

Additional Bonds are required to be authorized by Supplemental Resolution, which may delegate to authorized officers the power to determine, supplement, modify or amend specified details of such Bonds by means of a Series Certificate, which shall be filed with the Trustee and deemed for all purposes of the Resolution to have been adopted by the Authority and to be a part of the Supplemental Resolution to which it relates.

Additional Bonds may take the form of and have features incident to, among other things, Capital Appreciation Bonds, Variable Interest Rate Bonds, or Put Bonds, and in connection with the issuance of any Bonds the Authority may enter into Credit Facilities and Qualified Swaps. For a description of certain related provisions that may be included in Supplemental Resolutions, see Appendix E - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Certain Provisions Relating to Credit Facilities, Qualified Swaps and Other Arrangements".

### **Subordinated Obligations; Commercial Paper**

The Authority also reserves in the Resolution the right to issue or enter into Subordinated Obligations to be paid from amounts on deposit in the General Fund so long as any such Subordinated Obligations are not entitled, except as otherwise provided therefor by the express terms of the Resolution, to a charge or lien or right prior or equal to the charge or lien created by, or prior or equal to the rights of the Owners of the Bonds provided by, the Act and the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Flow of Funds".

The Authority has authorized Commercial Paper to be issued from time to time under the Commercial Paper Resolution, in an aggregate amount outstanding at any time not to exceed \$150,000,000 (\$200,000,000 if the liquidity facility coverage is increased), including both taxable and tax-exempt, to fund Project Costs, pay the principal of outstanding Commercial Paper and repay amounts advanced and loans made pursuant to any credit or liquidity facility provided with respect to the Commercial Paper (each a "Liquidity Facility") but not fees and expenses payable thereunder. Generally, Commercial Paper is intended to be issued on an interim basis in anticipation of the issuance of Bonds, although in some cases the Authority may retire Commercial Paper from other available sources.

All Commercial Paper constitutes Subordinated Obligations under the Resolution. The principal of the Commercial Paper, to the extent not paid from proceeds of other Commercial Paper or amounts drawn on a Liquidity Facility, and interest on the Commercial Paper, to the extent not paid from proceeds of draws on the Liquidity Facility, is payable from amounts to be made available therefor by the Authority. The Authority has entered into an agreement with WestLB, AG, New York Branch to provide the Liquidity Facility. Such Liquidity Facility permits, and the Commercial Paper Resolution requires, drawings thereunder (subject to conditions precedent) to pay the principal of and interest on Commercial Paper to the extent not paid from, in the case of principal, proceeds of other Commercial Paper or, in the case of both principal and interest, other funds made available by the Authority for the payment thereof. With the consent of the Authority, additional banks may be added as liquidity providers under the Liquidity Facility, in which case the obligations of all banks thereunder will be several and not joint. The Liquidity Facility will expire at the close of business on March 7, 2011, unless extended or terminated prior to such date in accordance with its terms.

On June 1, 2006, Commercial Paper was outstanding in the aggregate principal amount of \$129,046,000.

### **Annual Financing Charges and Administrative Fees**

The Financing Agreements require that as long as any Debt remains outstanding for any Project, Annual Financing Charges shall be established and revised by the Authority from time to time in such amounts, payable at such times, as shall at all times be sufficient to enable the Authority (i) to pay the principal of and premium, if any, and interest on such Debt as and when the same become due and payable, (ii) to pay or replenish reserves therefor as and when required by the Resolution, and (iii) to make any other payments required to be made by or on behalf of the Authority under or pursuant to the Resolution.

The Financing Agreements also require that, in addition to Annual Financing Charges, the Authority may establish and revise from time to time, and the Board shall pay, fees (Administration Fees) to compensate the Authority for costs relating to (i) the issuance and payment of Debt and (ii) the administration of the Agreement and the Resolution.

The Boards covenant and agree in the Financing Agreements to establish and collect Fees and Charges at each Institution at a level sufficient to produce in each Fiscal Year no less than two times the amount required for the payment of the aggregate (without duplication) of (i) all Annual Financing Charges in such Fiscal Year payable with respect to all Projects for the Institution, plus (ii) all First Program Annual Financing Charges in such Fiscal Year payable with respect to all First Program Projects for the Institution, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges in such Fiscal Year with respect to the Institution, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges in such Fiscal Year with respect to the Institution.

The Boards are required by the Financing Agreements to pay to the Authority all Annual Financing Charges and Administrative Fees in such amounts, at such times, in such manner and at such places as shall be specified in writing from time to time by the Authority. Under the Financing Agreements, the obligation of the Boards to pay Annual Financing Charges and Administrative Fees is absolute and unconditional, and Annual Financing Charges and Administrative Fees are required to be paid in full without set-off or counterclaim.

Annual Financing Charges and Administrative Fees payable with respect to a Project are required under the Financing Agreements to be paid by the Boards, as and when the same become due, only from Fees and Charges of the Institution for which the Project is undertaken or used. Each Board may pledge, assign or otherwise use or encumber any Fees and Charges relating to an Institution if the aggregate of the Fees and Charges collected by the Institution in the preceding Fiscal Year is no less than two times the amount required for the payment of the aggregate (without duplication) of (i) the maximum amount of the Annual Financing Charges payable and projected to be payable with respect to all Projects (including the Project to be approved) for the Institution in any succeeding Fiscal Year, plus (ii) the maximum amount payable by the Board as First Program Annual Financing Charges with respect to all First Program Projects for the Institution in any succeeding Fiscal Year, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges with respect to the Institution in any succeeding Fiscal Year, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges with respect to the Institution.

For a description of the governmental entity termination provisions of the Governmental Entity Review Law and their effect on the Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Termination of Existence."

## **Legislative Appropriations**

In accordance with the Act, the Financing Agreements provide that if any Annual Financing Charges or Administrative Fees shall not be paid by a Board when due and payable with respect to a Project, or if the Board shall notify the Authority of any inability to make such payment from Fees and Charges, then the Board shall forthwith deduct from the amounts appropriated by the General Assembly of the State of Tennessee for the operation and maintenance of the Institution for which such Project was undertaken or used and pay to the Authority such amount or amounts as may be required to make the Board current with respect to the unpaid Annual Financing Charges and Administrative Fees. Further, the Boards agree in the Financing Agreements that the Commissioner of Finance and Administration, or his successor, after notice from the Authority that the Board has failed to pay Annual Financing Charges or Administrative Fees due and payable with respect to a Project, shall, to the extent permitted by law, deduct from the amounts appropriated by the General Assembly of the State of Tennessee for the operation and maintenance of the Institution for which such Project was undertaken or used the amount or amounts as may be required to make the Board current with respect to the unpaid Annual Financing Charges and Administrative Fees.

A significant source of funding for the State's public institutions of higher education has been and continues to be annual appropriations made by the General Assembly of the State. See "STATEMENT OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE FOR THE LAST TEN YEARS" in Appendix B and "TENNESSEE PUBLIC HIGHER EDUCATION." However, the General Assembly is under no obligation to continue to make appropriations for the operation and maintenance of any Institution or of the Institutions generally, or to do so in any particular amount. See, however, "Additional Bonds" above and "Statutory Covenant" below. The State of Tennessee is not liable on the Bonds and the Bonds are not a debt of the State of Tennessee.

## **Certain State Law Bondowner Remedies**

The State has waived the Authority's immunity from suit and extended its consent to be sued for actions on both the Bonds and the First Program bonds, but has not done so for other contractual obligations of either the Authority or the Boards, including the Financing Agreements and the First Program Financing Agreements. Current State law provides that monetary claims against the State (including, for this purpose, the Authority and the Boards) for breach of its contractual obligations and certain other causes where sovereign immunity has not been waived may be heard and determined exclusively in the forum of the Tennessee Claims Commission, an administrative tribunal, where the Authority or the Boards may be liable only for actual damages and certain costs.

Under the State Constitution, public money may be expended only pursuant to an appropriation made by law. Such expenditures include, but are not limited to, funding any judgment in the Tennessee Claims Commission. The General Assembly in 2001 confirmed that the earnings, revenues, and assets of the Authority are continuously appropriated for expenditures authorized by or pursuant to the Act, which includes debt service on First Program Bonds, Second Program Bonds, and Commercial Paper. That legislation also confirmed that the earnings, revenues or other assets of any public higher education entity whose contracts or agreements support the payment of the Authority's debt service are continuously appropriated for expenditures in accordance with or pursuant to such contracts or agreements, which include the First Program Financing Agreements and the Second Program Financing Agreements. Sovereign immunity or other legal principles may bar actions to compel the General Assembly to appropriate moneys or to compel the payment of appropriated moneys.

For a description of remedies available to Bondowners under the Resolution, see Appendix E – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Remedies".

## **Termination of Existence**

The Governmental Entity Review Law provides for the termination of various governmental entities on specified dates. Those dates are June 30, 2008 in the case of the Authority, June 30, 2008 in the case of the Board of Regents, and June 30, 2007 in the case of the Board of Trustees. The law also provides that if the General Assembly does not extend the termination date of an entity, the existence of the entity will continue for an additional year without any diminution, reduction or limitation of its powers. However, the State is required to preserve the rights of the holders of any outstanding indebtedness of the entity at the time of termination.

**Statutory Covenant**

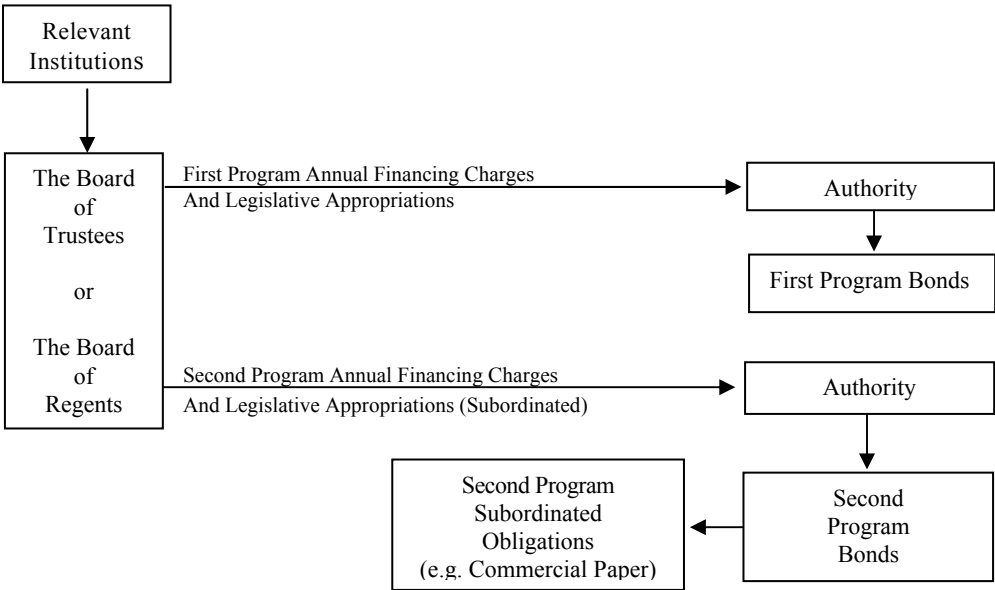
In accordance with the provisions of the Act, the Authority, on behalf of the State, in the Resolution pledges to and agrees with the Owners of the Bonds that the State will not limit or alter the rights vested by the Act in the Authority to fulfill the terms of any agreements made with Bond Owners, or in any way impair the rights and remedies of such Owners until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Owners, are fully met and discharged.

**First Program; Subordination of Second Program; No Additional First Program Debt**

The Authority established the First Program, its first loan program for the two Boards (or their predecessors), in 1967. The First Program operated under and pursuant to the First Program General Bond Resolution of the Authority, and the First Program Financing Agreements (and their antecedents) between the Authority and the two Boards (or their predecessors). The Authority and the Boards have replaced this program with a new Second Program governed by updated and more flexible resolutions and financing agreements, i.e., the Resolution and Financing Agreements as described herein.

The obligation of each Board to pay Annual Financing Charges and Administrative Fees, and the pledge of Annual Financing and Legislative Appropriations, under the Financing Agreement, and the payment thereof under and pursuant to the Financing Agreement, is subordinate in all respects to the obligation of the Board to pay First Program Annual Financing Charges and First Program administrative fees, and the pledge of First Program Annual Financing Charges and First Program Legislative Appropriations, and the payment thereof, under and pursuant to the First Program Financing Agreement.

This subordination is illustrated as follows subject in all respects to the description above:



No additional bonds or notes may be issued under or pursuant to the First Program General Bond Resolution or may be secured by or payable from payments made by the Boards to the Authority under or pursuant to the First Program Financing Agreements. There was outstanding under the First Program General Bond Resolution as of June 1, 2006 \$43,090,155 aggregate principal amount of First Program Bonds, of which \$22,655,000 has been financially defeased. There are no First Program notes outstanding.



## THE AUTHORITY

The Authority, created in 1965 under the Act, is a corporate governmental agency and instrumentality of the State of Tennessee. In addition to its authority to issue bonds and notes to finance Projects, the Authority in 1980 was empowered by the General Assembly of the State of Tennessee to issue bonds or notes to provide funds for the making of student loans by the Tennessee Student Assistance Corporation. The principal amounts of such bonds or notes issued may not exceed \$5,000,000 and must be secured separate and apart from any bonds or notes of the Authority issued to provide funds to finance Projects. As of the date of this Official Statement, no bonds or notes had been issued for the making of student loans.

In 1999, the General Assembly empowered the Authority to issue Qualified Zone Academy Bonds ("QZAB"). QZABs are issued under the provisions of the Authority's Qualified Zone Academy Bonds First Program Resolution, are not supported by either the First Program or Second Program Financing Agreements, and are not secured by either the First Program or Second Program General Bond Resolution. The bonds are part of a Federal government program in which generally, a Federal income tax credit is given to investors in lieu of the payment of interest on the bonds.

Under the program, loans with local governments are direct general obligations of the local government for the payment of which as to principal, the full faith and credit of the local government are pledged. As additional security for the loans, there is also pledged the borrower's unobligated portions of State taxes that are by statute to be shared with the local governments. Each borrower's annual loan repayments are deposited into sinking fund accounts invested with the State Treasurer and, together with interest thereon, are held to be applied to the payment of principal of the QZABs at maturity or upon redemption. As of June 1, 2006, the total par of QZABs outstanding is \$57,210,000 and the fund balance of pledged sinking fund accounts total \$14,179,205.

The Authority is also required to approve any borrowings consummated by any of the Institutions, whether such borrowings are made through the Authority or independently, unless such borrowings are provided solely through general obligation bonds of the State or legislative appropriations.

### Membership of the Authority

The powers of the Authority, as defined in the Act, are vested in and exercised by its members who consist of the Governor, the Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of Finance and Administration, the Chancellor of the Board of Regents, and the President of The University of Tennessee. The Governor serves as Chairman of the Authority, and the Comptroller of the Treasury serves as the Secretary.

### Outstanding Indebtedness of the Authority

Giving the effect to the issuance of the Offered Bonds, as of the date of delivery of the Offered Bonds, the Authority will have issued, and there will be outstanding under the Resolution, Bonds as follows:

	<b>Outstanding as of June 29, 2006 (Unaudited)</b>
<b>Higher Educational Facilities Second Program Bonds</b>	
1998 Series A	\$23,280,000
1998 Series B (Federally Taxable)	1,095,000
1998 Refunding Series C	2,850,000
1998 Refunding Series D	20,350,000
2000 Series A	8,395,000
2000 Series B (Federally Taxable)	10,170,000
2002 Series A	87,155,000
2004 Refunding Series A	67,130,000
2004 Series B	57,065,000
2004 Series C (Federally Taxable)	36,100,000
2005 Refunding Series A	100,540,000
2005 Refunding Series B (Federally Taxable)	30,960,000
2006 Series A	53,820,000
2006 Series B	<u>12,485,000</u>
Total Outstanding Second Program Bonds	<u>\$511,395,000</u>

In addition, the Authority has also issued bonds under the First Program General Bond Resolution. Certain bonds were financially defeased in 1998 and 2004 by a refunding bond issue of the Authority and in 1999 with proceeds of bonds issued by the Health, Educational and Housing Facilities Board of the County of Knox, Tennessee, for University Health System, Inc., in Knoxville, Tennessee, in connection with the latter's acquisition of The University of Tennessee's Memorial Research Center and Hospital. The outstanding amounts of the First Program Bonds are as follows:

<b>Higher Educational Facilities First Program Bonds</b>	<b>Outstanding as of June 29, 2006 (Unaudited)</b>
1976 Series B Bonds	861,000
1987 Series A Bonds	4,080,000 <sup>1</sup>
1989 Series (College Savings Bonds)	9,389,155 <sup>2</sup>
1996 Series B	21,625,000 <sup>3,5</sup>
1996 Series C	4,045,000
1996 Refunding Series D	<u>3,090,000</u> <sup>4,5</sup>
Total Outstanding First Program Bonds	<u>\$43,090,155</u>

<sup>1</sup>The entire amount of this series was financially defeased and escrowed to maturities through May 1, 2012.

<sup>2</sup>Includes the accretion as of June 1, 2006 of the College Savings Bonds.

<sup>3</sup>Of this amount, \$15,485,000 was financially defeased and escrowed to maturities through May 1, 2011.

<sup>4</sup>The entire amount of this series was financially defeased and escrowed to maturities through May 1, 2011.

<sup>5</sup>The Authority has reserved the right to call the financially defeased escrowed-to-maturity bonds for redemption prior to their maturities in accordance with the terms thereof.

The Authority also has issued and there are outstanding Commercial Paper as described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper".

The Authority continually monitors its debt structure and capital requirements, and depending on such requirements, financial market conditions and other factors, may issue additional bonds or notes and may refund (whether or not for savings) any of its outstanding bonds and notes. For additional financial information concerning the Authority, see Appendix A hereto.

## **TENNESSEE PUBLIC HIGHER EDUCATION**

Public higher education in Tennessee is coordinated by the Tennessee Higher Education Commission and consists of two systems: The University of Tennessee campuses governed by The University of Tennessee Board of Trustees, and the state universities, community colleges and state technology centers governed by the Tennessee Board of Regents of the State University and Community College System of Tennessee.

The Commission consists of the three Constitutional Officers (Comptroller of the Treasury, Secretary of State, Treasurer), nine lay members with six year terms appointed by the Governor, and two student members appointed for two year terms (one from The University of Tennessee system and one from the Board of Regents system, one voting each year). It develops a statewide Master Plan used in making policy recommendations concerning such matters as the need for existing degree programs, the development of new degree programs, and the review of tuition and fees. The Commission is charged with conducting annual reviews and licensing non-accredited, degree-offering postsecondary educational institutions, has the responsibility for studying the use of public funds appropriated for higher education, and recommends the appropriations of state funds for public higher education institutions.

The Boards are governing bodies for all public higher education in Tennessee. They have entered into both First Program Financing Agreements and Second Program Financing Agreements, by which the Authority provides funding for Projects.

The Board of Regents was created by the General Assembly in 1972 to govern the State University and Community College System, which currently includes 6 universities, 13 community colleges, and 28 state technology centers. Institutions governed by the Board of Regents are: Austin Peay State University, East Tennessee State University, Middle Tennessee State University, Tennessee State University, Tennessee Technological University, University of Memphis, Chattanooga State Technical Community College, Cleveland State Community College, Columbia State Community

College, Dyersburg State Community College, Jackson State Community College, Motlow State Community College, Nashville State Community College, Northeast State Technical Community College, Pellissippi State Technical Community College, Roane State Community College, Southwest Tennessee Community College, Volunteer State Community College, and Walters State Community College, each of which is considered under the Act and the First and Second Program Financing Agreements to be an "Institution".

The University of Tennessee was founded in 1794 as Blount College. The University was designated in 1869 as the Federal land-grant institution in Tennessee. The Board of Trustees of The University of Tennessee is the governing body of The University of Tennessee. The University has four campuses (at Knoxville, Martin, Memphis, and Chattanooga), with 33 colleges, schools, and divisions, all of which constitute a single "Institution" under the Act and the First and Second Program Financing Agreements.

For statements of outstanding debt by Institution, debt service coverage, fees and charges, appropriations and debt service by Institution, and certain other statistical information, see Appendix B hereto.

## **REVIEW AND APPROVAL PROCESS FOR FINANCING OF PROJECTS BY AUTHORITY**

For the purpose of carrying out the programs authorized by the Act and to permit the Authority to undertake the financing of Projects, the Authority's existing policy generally requires the review and approval by different bodies of State government prior to the Authority's approval of a project undertaken for either the Board of Trustees or the Board of Regents.

The review and approval process is undertaken in the following sequence:

- (1) A Project request is initiated by an Institution. Such Project is expected to relate to that Institution's five-year capital construction plan, if applicable.
- (2) The Project is reviewed by the Board of Trustees or the Board of Regents, as the case may be, and, if approved, is forwarded to the Tennessee Higher Education Commission and to the Authority.
- (3) The Tennessee Higher Education Commission undertakes a review of the Project to determine its educational need and compatibility with the Institution's master plan. The Commission then forwards its comments and recommendations to the Commissioner of Finance and Administration.
- At the same time, the Authority staff undertakes a review of the Project's financial feasibility to determine if sufficient revenue has been pledged to cover the debt service for that project. The staff then forwards its comments and recommendations to the State Building Commission.
- (4) The Project is then presented to the State Building Commission for approval of funding. The State Building Commission is an agency of the State of Tennessee whose permanent members consist of the Governor, Lieutenant Governor, Speaker of the House of Representatives, Comptroller of the Treasury, Secretary of State, State Treasurer and Commissioner of Finance and Administration. The State Architect serves as its Chief Staff Officer.
- (5) Upon approval by the State Building Commission, the Project is forwarded to the Authority which considers the Project for inclusion under the Second Program Financing Agreement with the Board of Trustees or the Board of Regents, as the case may be.
- (6) Upon approval for funding by the Authority, the Project proceeds immediately to detailed architectural design. When planning and specifications are complete, they are then forwarded to the State Architect's office for review and submission to the State Building Commission for approval.

Institutions may bring financings for the purchase of large equipment and computer software directly to the Authority. Depending on the average life of the item financed it may be amortized through the commercial paper program or through long-term or short-term fixed rate debt.

## **RATINGS**

Fitch, Moody's Investors Service Inc. and Standard & Poor's Ratings Services have given the Offered Bonds ratings of AA, Aa3, and AA-, respectively. It is anticipated that upon closing, the Offered Bonds will be rated AAA, Aaa, and AAA, respectively, based on the purchase of insurance from Financial Surety Assurance, Inc by the underwriting syndicates. Such ratings reflect only the respective views of such organizations and an explanation of the significance of a rating may be obtained only from the rating agency furnishing the same. There is no assurance that any rating will be maintained for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant.

## **LITIGATION**

There is no controversy or litigation of any nature now pending or threatened against the Authority to restrain or enjoin the issuance, sale, execution or delivery of the Offered Bonds or the financing of the Projects or the application of the proceeds of the Offered Bonds, or in any way contesting or affecting the validity of the Offered Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, the Financing Agreements, or the pledge or application of any monies or security provided for the payment of the Offered Bonds or the existence powers of the Authority, the Board of Regents or the Board of Trustees. The Board of Regents and the Board of Trustees are engaged in litigation of various natures. However, there is no litigation pending or threatened to restrain or enjoin the financing of the Projects or contesting or affecting the validity of any proceedings of the Board of Regents or the Board of Trustees taken with respect to the Financing Agreements, or the pledge or application of any monies or security provided for the payment of the Annual Financing Charges.

## **TAX MATTERS**

### **Federal Tax Matters**

#### *General*

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Offered Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Offered Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Boards, and others in connection with the Offered Bonds, and Bond Counsel has assumed compliance by the Authority and the Boards with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Offered Bonds from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal tax consequences with respect to the Offered Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation or otherwise. Bond Counsel expresses no opinion as to the effect of any action hereafter taken or not taken, in reliance upon an opinion of other counsel, on the exclusion from gross income for Federal income tax purposes of interest on the Offered Bonds.

For the proposed form of opinions of Bond Counsel relating to Federal tax matters, see Appendix H.

#### *Certain Ongoing Federal Tax Requirements and Covenants*

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Offered Bonds in order that interest on the Offered Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Offered Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause

interest on the Offered Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Boards have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Offered Bonds from gross income under Section 103 of the Code.

#### *Certain Collateral Federal Tax Consequences*

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Offered Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of an Offered Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Bonds.

Prospective owners of the Offered Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Offered Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

#### *Original Issue Discount*

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of an Offered Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Offered Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Offered Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel is of the opinion that, for any Offered Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Offered Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

#### *Bond Premium*

In general, if an owner acquires an Offered Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on that Offered Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Offered Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to

an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange or other disposition of Premium Bonds.

#### *Possible Government Action*

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated by the Internal Revenue Service, involving either the Offered Bonds or other tax-exempt bonds, after the date of issuance of the Offered Bonds will not have an adverse effect on the tax-exempt status or market price of the Offered Bonds.

#### **State of Tennessee Tax Matters**

In the opinion of Bond Counsel, under existing laws of the State, the Offered Bonds and the interest thereon are exempt from taxation by the State or any county, municipality or taxing district of the State, except for estate and gift taxes and taxes on transfers, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State.

Bond Counsel expresses no opinion regarding any other state or local tax consequences with respect to the Offered Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation or otherwise. Bond Counsel expresses no opinion as to the effect of any action hereafter taken or not taken, in reliance upon an opinion of other counsel, under state and local tax law.

For the proposed form of opinions of Bond Counsel relating to State tax matters, see Appendix H.

### **FINANCIAL ADVISOR**

Public Financial Management, Inc. ("PFM") is employed by the Authority to perform professional services in the capacity of financial advisor. In its role as financial advisor to the Authority, PFM has provided advice on the plan of financing and structure of the Offered Bonds, reviewed certain legal and disclosure documents, including this Official Statement, for financial matters, and verified the results of the competitive sale of the Offered Bonds. PFM has not independently verified the factual information contained in this Official Statement, but relied on the information supplied by the Authority and other sources and the Authority's certification as to the Official Statement.

### **CERTIFICATION AS TO OFFICIAL STATEMENT**

The Authority will confirm by a certificate signed on its behalf by the Comptroller of the Treasury and delivered at the closing for the Offered Bonds, to the effect that at the time of the acceptance of the bid, and at the time of the closing, (i) the information and statements, including financial statements, of or pertaining to the Authority contained in this Official Statement, were and are correct in all material respects; and (ii) insofar as the Authority and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, taking into account the purposes for which the Official Statement is used. The Authority, by such certificate, will further confirm to the effect that insofar as the descriptions and statements, including financial data, of or pertaining to other governmental bodies, nongovernmental bodies, and their respective activities contained in this Official Statement are concerned, such descriptions, statements, and data have been obtained from sources believed by the Authority to be reliable, and that the Authority has no reason to believe that they are untrue or incomplete in any material respect.

## **APPROVING LEGAL OPINIONS**

The validity of the Offered Bonds will be approved by the legal opinions of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. For the form of proposed Bond Counsel opinions relating to the Offered Bonds, see Appendix H. Certain legal matters will be passed upon by the Attorney General and Reporter of the State of Tennessee, as counsel to the Authority. No representation is made to the holders of the Offered Bonds that such counsel have verified the accuracy, completeness or fairness of the statements in this Official Statement, and such counsel assume no responsibility to the holders of the Offered Bonds except for the matters that will be set forth in their respective opinions.

## **CONTINUING DISCLOSURE**

The Authority has authorized a Continuing Disclosure Undertaking (the “Undertaking”) with respect to the Offered Bonds to assist the Underwriters in complying with U.S. Securities and Exchange Commission Rule 15c2-12(b)(5). The Undertaking is for the benefit of the holders of the Offered Bonds; beneficial owners of the Offered Bonds will be third-party beneficiaries of the Undertaking. In the Undertaking, the Authority will agree to provide certain financial information and operating data by specified dates, and to provide notice of certain enumerated events with respect to the Offered Bonds, if material. The specific nature of the information to be provided and the notices of material events, and the places where they will be filed, is described in the summary of certain provisions of the Undertaking, attached hereto as Appendix G. The Authority has not failed to comply in any material respect with any previous continuing disclosure undertaking in a written contract or agreement specified in Rule 15c2-12.

## **UNDERWRITING**

Morgan Keegan & Company, Inc., as representative of a group of underwriters, was awarded the 2006A Bonds through a competitive sale and will purchase all of the 2006A Bonds at an aggregate net price of \$53,392,216 (which includes an Underwriter’s discount of \$469,097 and net original issue premium of \$41,313) plus accrued interest of \$179,039.

Morgan Keegan & Company, Inc., as representative of a group of underwriters, was awarded the 2006B Bonds through a competitive sale and will purchase all of the 2006B Bonds at an aggregate net price of \$12,522,144 (which includes an Underwriter’s discount of \$55,796 and net original issue premium of \$92,940) plus accrued interest of \$38,842.

## **MISCELLANEOUS**

All quotations from, and summaries and explanations of, the Act, the Financing Agreements, the Resolution, and the Undertaking contained herein do not purport to be complete and reference is made to each for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Any statements in this Official Statement involving matters of estimate or opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Offered Bonds.

## **TENNESSEE STATE SCHOOL BOND AUTHORITY**

By: /s/ John G. Morgan, Comptroller of the Treasury  
Secretary to the Authority

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**Financial Statements of the Authority**

The Tennessee State School Bond Authority Comprehensive Annual Financial Report (“CAFR”), including the audited Basic Financial Statements, for the fiscal year ended June 30, 2005 has been filed with each nationally recognized municipal securities information repository (“NRMSIR”)(see “Continuing Disclosure” in the Official Statement) and is obtainable from them in accordance with their respective procedures. A printed version is also available upon request to the Tennessee State School Bond Authority, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-0273, telephone (615) 401-7872, fax (615) 741-5986. The 2005 CAFR and certain prior year CAFRs are posted on the Authority’s website at **<http://www.comptroller.state.tn.us/bf/bftssba.htm>**.

The following reports, each of which are included in the CAFR and have been posted on the Authority’s website, are incorporated herein by reference:

Independent Auditor’s Report

Management’s Discussion and Analysis

Basic Financial Statements:

Statements of Net Assets

Statements of Revenues, Expenses and Changes in Net Assets

Statements of Cash Flows

Notes to the Financial Statements

Supplementary Schedules:

Supplementary Schedules of Net Assets – Program Level

Supplementary Schedules of Revenues, Expenses, and Changes in Net Assets – Program Level

Supplementary Schedules of Cash Flows – Program Level

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**TENNESSEE STATE SCHOOL BOND AUTHORITY  
SELECTED STATISTICAL INFORMATION**

**Authority Bond Debt Service and Other Requirements  
Secured by Financing Agreements  
(Excluding Commercial Paper)  
(000's Omitted)**

12 Months Ending June 30	<b>First Program<sup>1</sup></b>			<b>Second Program<sup>2</sup></b>			<b>Total<sup>1,2</sup></b>
	Bond Debt Service	Admin. Expense	Annual Financing Charges	Bond Debt Service	Admin. Expense	Annual Financing Charges	Annual Financing Charges
2007	4,692	41	4,733	39,183	878	40,061	44,794
2008	4,687	33	4,720	39,230	842	40,072	44,792
2009	4,689	25	4,714	39,391	803	40,194	44,908
2010	4,688	18	4,706	39,566	764	40,330	45,036
2011	1,761	11	1,772	37,036	721	37,757	39,529
2012	547	7	554	37,160	683	37,843	38,397
2013	542	6	548	35,237	643	35,880	36,428
2014	541	6	547	34,795	804	35,599	36,146
2015	542	5	547	33,434	567	34,001	34,548
2016	541	4	545	32,245	529	32,774	33,319
2017	537	3	540	31,081	492	31,573	32,113
2018	543	2	545	30,278	455	30,733	31,278
2019	536	2	538	29,366	417	29,783	30,321
2020	539	1	540	29,041	379	29,420	29,960
2021	0	0	0	26,985	340	27,325	27,325
2022	0	0	0	25,142	303	25,445	25,445
2023	0	0	0	23,970	267	24,237	24,237
2024	0	0	0	23,411	232	23,643	23,643
2025	0	0	0	19,905	197	20,102	20,102
2026	0	0	0	19,918	167	20,085	20,085
2027	0	0	0	15,904	136	16,040	16,040
2028	0	0	0	15,922	111	16,033	16,033
2029	0	0	0	12,510	85	12,595	12,595
2030	0	0	0	12,531	64	12,595	12,595
2031	0	0	0	8,586	42	8,628	8,628
2032	0	0	0	8,598	27	8,625	8,625
2033	0	0	0	2,991	11	3,002	3,002
2034	0	0	0	2,996	6	3,002	3,002
	<u>\$ 25,385</u>	<u>\$ 164</u>	<u>\$ 25,549</u>	<u>\$ 706,412</u>	<u>\$ 10,965</u>	<u>\$ 717,377</u>	<u>\$ 742,926</u>

<sup>1</sup>Includes full accretion of the College Savings Bonds.

<sup>2</sup>Excludes the Offered Bonds. See "THE AUTHORITY - Outstanding Indebtedness of the Authority" for total outstanding Second Program Bonds as of June 1, 2006.

**Principal Amount of Debt Outstanding, by Institution**  
**As of June 1, 2006 (Unaudited)**  
**(000's omitted)**

<b>Institutions<sup>4</sup></b>	<b>First Program Bonds<sup>2</sup></b>	<b>Second Program Bonds<sup>3</sup></b>	<b>Commercial Paper<sup>1</sup></b>	<b>Non- Authority Debt</b>	<b>Total Debt<sup>1,2,3</sup></b>
University of Tennessee	\$ 13,770	\$ 230,779	\$ 46,476	\$ 56	\$ 291,081
Austin Peay State University	754	27,730	8,048	0	36,532
East Tennessee State University	100	25,598	10,341	312	36,351
Middle Tennessee State University	229	77,991	30,758	0	108,978
Tennessee State University	4,981	22,825	6,170	0	33,976
Tennessee Technological University	60	11,186	5,369	0	16,615
University of Memphis	542	46,706	7,572	0	54,820
Cleveland State Community College	0	0	610	0	610
Chattanooga State Technical Community College	0	522	2,268	0	2,790
Columbia State Community College	0	119	0	0	119
Dyersburg State Community College	0	0	420	0	420
Jackson State Community College	0	0	604	0	604
Motlow State Community College	0	0	618	0	618
Nashville State Community College	0	64	0	0	64
Northeast State Technical Community College	0	0	1,060	0	1,060
Pellissippi State Technical Community College	0	0	1,686	0	1,686
Roane State Community College	0	0	2,198	0	2,198
Southwest Tennessee Community College	0	1,455	0	0	1,455
Volunteer State Community College	0	115	442	0	557
Walters State Community College	0	0	1,774	0	1,774
<b>TOTAL</b>	<b>\$ 20,436</b>	<b>\$ 445,090</b>	<b>\$ 126,414</b>	<b>\$ 368</b>	<b>\$ 592,308</b>

<sup>1</sup> Excludes Commercial Paper not allocated to Institutions as of June 1, 2006 (see page B-11).

<sup>2</sup> Includes accretion of College Savings Bonds as of June 1, 2006.

<sup>3</sup> Excludes the Offered Bonds. See "THE AUTHORITY - Outstanding Indebtedness of the Authority" for total outstanding Second Program Bonds as of June 1, 2006.

<sup>4</sup> Includes only those Institutions that have projects which have been financed with Commercial Paper and/or Bonds.

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**University and College Funds<sup>1</sup>**  
**Statement of Fees/Charges, Legislative Appropriations**  
**And Debt Service for the Last Ten Years**

The Total Fees and Charges and Legislative Appropriations (in some cases, as amended by the General Assembly) set forth in the following tables are applied to pay the cost of operations and maintenance of the following Institutions as well as the Debt Service Requirements (excluding Commercial Paper and the Offered Bonds) listed below. (Dollar amounts are rounded to thousands). The allocation of the appropriation to the various institutions in fiscal year 2006 is subject to further adjustment to be determined at a later date

**UNIVERSITY OF TENNESSEE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 467,484	\$ 439,737	\$ 56	\$ 5,911	\$ 17,986
2005	448,955	430,412	66	5,906	19,411
2004	417,191	406,033	75	9,667	14,840
2003	413,632	409,612	0	9,670	15,134
2002	438,956	406,146	21	10,045	10,437
2001	401,918	408,671	21	10,043	8,585
2000	410,086	375,872	21	10,208	6,667
1999	622,109	373,207	21	16,703	7,728
1998	559,661	367,938	21	28,657	0
1997	587,138	374,249	21	26,891	0

**AUSTIN PEAY STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 36,864	\$ 32,589	\$ 0	\$ 272	\$ 1,832
2005	34,012	32,216	0	272	1,970
2004	33,058	30,712	48	339	1,176
2003	36,201	31,100	48	341	1,175
2002	33,157	30,484	48	455	192
2001	26,555	28,051	48	457	192
2000	24,288	28,001	48	458	191
1999	23,188	27,444	48	455	196
1998	20,420	25,559	48	672	0
1997	19,178	25,733	48	641	0

**EAST TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 79,200	\$ 84,360	\$ 312	\$ 2,221	\$ 2,221
2005	77,284	83,221	312	77	2,747
2004	77,570	79,247	315	77	2,533
2003	68,805	79,735	319	77	2,531
2002	65,342	77,965	261	454	1,637
2001	59,516	75,937	261	454	1,462
2000	64,386	72,837	258	644	1,310
1999	64,652	70,814	0	729	1,014
1998	57,826	67,202	0	1,588	0
1997	53,232	68,469	0	1,597	0

**MIDDLE TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 118,985	\$ 86,738	\$ 0	\$ 345	\$ 6,110
2005	107,719	82,305	0	345	6,592
2004	98,844	81,057	0	907	5,632
2003	93,953	83,208	0	907	5,630
2002	98,031	77,990	0	1,119	4,764
2001	86,328	76,159	0	1,235	4,237
2000	78,317	73,273	0	1,235	3,651
1999	70,530	70,576	0	1,223	2,134
1998	62,814	64,469	0	1,872	0
1997	57,341	63,529	0	1,668	0

**TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 60,651	\$ 37,234	\$ 0	\$ 951	\$ 1,942
2005	44,167	42,305	0	955	2,046
2004	53,840	40,621	0	953	2,057
2003	57,939	39,040	0	954	2,183
2002	45,119	35,067	0	1,125	1,116
2001	54,979	34,843	66	1,124	1,069
2000	52,156	36,337	66	1,124	932
1999	46,423	35,597	66	892	577
1998	39,141	32,052	135	1,257	0
1997	34,352	32,227	135	1,157	0

**TENNESSEE TECHNOLOGICAL UNIVERISTY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 48,189	\$ 48,122	\$ 0	\$ 13	\$ 1,029
2005	44,801	47,869	0	13	1,155
2004	47,194	40,165	0	13	884
2003	53,518	45,813	0	13	402
2002	41,311	40,392	0	242	401
2001	37,065	43,568	0	242	397
2000	33,791	38,938	0	447	397
1999	31,616	39,259	0	447	628
1998	28,831	37,699	0	1,145	0
1997	27,208	38,164	0	1,150	0

**UNIVERSITY OF MEMPHIS**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 140,373	\$ 108,157	\$ 0	\$ 213	\$ 4,780
2005	134,065	106,393	0	213	5,395
2004	128,880	100,602	0	649	5,642
2003	127,638	102,139	0	650	5,684
2002	120,196	99,786	0	651	5,145
2001	114,031	97,499	0	649	3,128
2000	102,186	94,289	0	649	1,707
1999	93,593	93,576	0	648	2,406
1998	80,625	89,924	0	2,991	0
1997	75,167	91,212	0	2,889	0

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 13,395	\$ 22,354	\$ 0	\$ 0	\$ 69
2005	12,306	21,977	0	0	69
2004	11,937	20,979	65	0	73
2003	13,428	21,108	60	0	73
2002	12,380	21,233	70	0	73
2001	11,650	20,684	69	0	34
2000	11,074	20,234	72	0	0
1999	10,453	19,602	69	0	0
1998	9,818	18,589	68	0	0
1997	9,032	18,514	71	0	0

**COLUMBIA STATE COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 12,582	\$ 12,914	\$ 0	\$ 0	\$ 17
2005	12,133	12,839	0	0	17
2004	10,799	11,344	0	0	0
2003	14,921	11,540	0	0	0
2002	13,136	11,437	0	0	0
2001	7,294	11,016	0	0	0
2000	6,836	10,675	0	0	0
1999	6,615	10,143	0	0	0
1998	5,753	9,069	0	0	0
1997	4,966	8,670	0	0	0

# NASHVILLE STATE COMMUNITY COLLEGE

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 13,432	\$ 14,875	\$ 0	\$ 0	\$ 13
2005	13,955	13,449	0	0	13
2004	12,202	12,730	0	0	13
2003	13,519	13,099	0	0	13
2002	8,254	12,525	0	0	0
2001	8,322	12,168	0	0	0
2000	7,474	11,655	0	0	0
1999	6,816	11,092	0	0	0
1998	6,260	9,864	0	0	0
1997	4,777	9,677	0	0	0

# SOUTHWEST TENNESSEE COMMUNITY COLLEGE<sup>5</sup>

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 17,403	\$ 35,609	\$ 0	\$ 0	\$ 169
2005	16,749	36,210	0	0	169
2004	16,472	34,191	0	0	179
2003	21,839	34,827	0	0	179
2002	19,022	35,175	0	0	179
2001	18,325	34,451	0	0	146
2000	10,838	18,464	0	0	146
1999	9,991	18,527	0	0	56
1998	9,837	17,898	0	0	0
1997	9,712	18,174	0	0	0

# VOLUNTEER STATE COMMUNITY COLLEGE

Fiscal Year	Total Fees and Charges	Legislative Appropriations <sup>2</sup>	Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements <sup>3</sup> Authority Bonds	
				First Program	Second Program
2006 <sup>4</sup>	\$ 20,805	\$ 18,049	\$ 0	\$ 0	\$ 17
2005	19,115	18,049	0	0	17
2004	9,395	15,417	0	0	0
2003	12,941	15,813	0	0	0
2002	15,060	15,862	0	0	0
2001	15,567	15,394	0	0	0
2000	17,843	14,947	0	0	0
1999	15,088	14,323	0	0	0
1998	13,046	13,232	0	0	0
1997	12,855	12,029	0	0	0

Source-Colleges & Universities

<sup>1</sup> Includes only those Institution that have projects which have been financed with Bonds.

<sup>2</sup> Appropriations for operations and maintenance, including employer social security and retirement contributions; but not including special program funds, such as for Centers of Excellence and institution and research equipment.

<sup>3</sup> Debt service requirements consist of only principal and interest.

<sup>4</sup> Fees and Charges, Appropriations, Subordinate Debt Service Requirements (Non-Authority), and Debt Service Requirements (First and Second Program Bonds) are budgeted amounts.

<sup>5</sup> As of July 1, 2000, State Technical Institute at Memphis and Shelby State Community College merged to form Southwest Tennessee Community College.



**Coverage Of Annual Financing Charges**  
**Long-Term Debt Secured by Financing Agreements**  
**(Excluding Commercial Paper)**  
**For Fiscal Years 2002-2006**

**Fiscal Year 2006 (Budgeted)<sup>6</sup>**

Institution	Total Fees & Charges	Appropriations	Annual Financing Charges (Long- Term Debt) <sup>2,3,4,5</sup>	Coverage By <sup>1</sup> :	
				Fees & Charges	Fees, Charges, & Appropriations
University of Tennessee	\$467,484,434	\$439,736,500	\$24,517,009	19.07 X	37.00 X
Austin Peay State University	36,864,000	32,589,000	2,170,982	16.98 X	31.99 X
East Tennessee State University	79,200,000	84,360,000	2,232,013	35.48 X	73.28 X
Middle Tennessee State University	118,984,800	86,738,200	6,758,065	17.61 X	30.44 X
Tennessee State University	60,651,120	37,233,700	2,534,229	23.93 X	38.63 X
Tennessee Technological University	48,189,000	48,122,000	1,068,460	45.10 X	90.14 X
University of Memphis	140,373,137	108,156,700	5,215,404	26.92 X	47.65 X
Chattanooga State Technical Community College	13,394,500	22,354,400	71,783	186.60 X	498.01 X
Columbia State Community College	12,581,500	12,913,940	17,689	711.26 X	1441.32 X
Nashville State Community College	13,432,020	14,874,620	12,749	1053.57 X	2220.30 X
Southwest Tennessee Community College	17,403,100	35,608,600	179,229	97.10 X	295.78 X
Volunteer State Community College	20,804,731	18,048,897	17,100	1216.65 X	2272.14 X

**Fiscal Year 2005**

Institution	Total Fees & Charges	Appropriations	Annual Financing Charges (Long- Term Debt) <sup>2,3,4</sup>	Coverage By <sup>1</sup> :	
				Fees & Charges	Fees, Charges, & Appropriations
University of Tennessee	\$448,955,161	\$430,412,400	\$25,854,407	17.36 X	34.01 X
Austin Peay State University	34,011,623	32,215,500	2,304,084	14.76 X	28.74 X
East Tennessee State University	77,284,000	83,221,000	2,881,347	26.82 X	55.70 X
Middle Tennessee State University	107,718,678	82,304,800	7,103,420	15.16 X	26.75 X
Tennessee State University	44,167,150	42,304,789	3,054,006	14.46 X	28.31 X
Tennessee Technological University	44,801,426	47,869,300	1,190,194	37.64 X	77.86 X
University of Memphis	134,065,269	106,392,600	5,791,903	23.15 X	41.52 X
Chattanooga State Technical Community College	12,306,342	21,977,400	74,301	165.63 X	461.42 X
Columbia State Community College	12,133,292	12,838,655	17,689	685.92 X	1411.72 X
Nashville State Community College	13,955,000	13,449,000	12,749	1094.60 X	2149.50 X
Southwest Tennessee Community College	16,749,082	36,209,700	182,579	91.74 X	290.06 X
Volunteer State Community College	19,114,573	18,048,897	17,100	1117.81 X	2173.30 X

**Fiscal Year 2004**

Institution	Total Fees & Charges	Appropriations	Annual Financing Charges (Long- Term Debt) <sup>2,3,4</sup>	Coverage By <sup>1</sup> :	
				Fees & Charges	Fees, Charges, & Appropriations
University of Tennessee	\$417,190,583	\$406,033,200	\$24,821,544	16.81 X	33.17 X
Austin Peay State University	33,058,098	30,712,000	1,545,836	21.39 X	41.25 X
East Tennessee State University	77,570,000	79,247,000	2,659,751	29.16 X	58.96 X
Middle Tennessee State University	98,844,323	81,056,600	6,672,628	14.81 X	26.96 X
Tennessee State University	53,839,626	40,621,307	3,069,821	17.54 X	30.77 X
Tennessee Technological University	47,193,642	40,164,700	912,058	51.74 X	95.78 X
University of Memphis	128,879,630	100,602,000	6,377,716	20.21 X	35.98 X
Chattanooga State Technical Community College	11,937,431	20,978,500	74,301	160.66 X	443.01 X
Nashville State Community College	12,201,800	12,729,700	12,749	957.08 X	1955.57 X
Southwest Tennessee Community College	16,471,827	34,190,800	182,510	90.25 X	277.59 X

**Fiscal Year 2003**

Institution	Total Fees & Charges	Appropriations	Annual Financing Charges (Long- Term Debt) <sup>2,3,4</sup>	Coverage By <sup>1</sup> :	
				Fees & Charges	Fees, Charges, & Appropriations
University of Tennessee	\$413,631,945	\$409,612,000	\$25,138,276	16.45 X	32.75 X
Austin Peay State University	36,201,034	31,099,846	1,548,052	23.38 X	43.47 X
East Tennessee State University	68,805,000	79,735,000	2,661,138	25.86 X	55.82 X
Middle Tennessee State University	93,952,707	83,208,100	6,674,560	14.08 X	26.54 X
Tennessee State University	57,938,565	39,040,110	3,198,209	18.12 X	30.32 X
Tennessee Technological University	53,517,525	45,812,542	419,817	127.48 X	236.60 X
University of Memphis	127,638,000	102,139,300	6,431,917	19.84 X	35.72 X
Chattanooga State Technical Community College	13,427,871	21,107,800	74,301	180.72 X	464.81 X
Nashville State Community College	13,518,671	13,099,300	12,749	1060.37 X	2087.85 X
Southwest Tennessee Community College	21,839,000	34,826,800	182,833	119.45 X	309.93 X

**Fiscal Year 2002**

Institution	Total Fees & Charges	Appropriations	Annual Financing Charges (Long- Term Debt) <sup>2,3,4</sup>	Coverage By <sup>1</sup> :	
				Fees & Charges	Fees, Charges, & Appropriations
University of Tennessee	\$438,956,278	\$406,146,350	\$20,702,942	21.20 X	40.82 X
Austin Peay State University	33,157,000	30,484,000	651,087	50.93 X	97.75 X
East Tennessee State University	65,342,000	77,965,000	2,116,524	30.87 X	67.71 X
Middle Tennessee State University	98,031,000	77,990,000	5,978,008	16.40 X	29.44 X
Tennessee State University	45,119,000	35,067,000	2,271,586	19.86 X	35.30 X
Tennessee Technological University	41,311,000	40,392,000	756,381	54.62 X	108.02 X
University of Memphis	120,196,000	99,786,000	5,884,112	20.43 X	37.39 X
Chattanooga State Technical Community College	12,380,000	21,233,000	74,301	166.62 X	452.39 X
Southwest Tennessee Community College	19,022,000	35,175,000	149,335	127.38 X	362.92 X

Source-Colleges & Universities

<sup>1</sup> Does not include coverage for Commercial Paper as outstanding debt. For total Commercial Paper outstanding see page B-11.

<sup>2</sup> Includes both the First Program and Second Program Bonds. Excludes Commercial Paper.

<sup>3</sup> Includes the maturity value only, and includes full accretion of College Savings Bonds and certain bonds secured by refunding trusts.

<sup>4</sup> Annual Financing Charges consist of principal, interest and administrative fee.

<sup>5</sup> Excludes Offered Bonds

<sup>6</sup> Total Fees & Charges, Appropriations, Annual Financing Charges, and coverages for FY 2006 are budgeted amounts.

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**Student Fees and Charges <sup>1</sup>**  
**(2005-2006 Academic Year)**

<b><u>Institutions<sup>2</sup></u></b>	<b><u>Debt Service Fees</u></b>	<b><u>In-State Student Tuition</u></b>	<b><u>Non-Resident Student Tuition</u></b>	<b><u>Average Board Charge</u></b>	<b><u>Average Room Charge</u></b>
University of Tennessee-Knoxville	\$ 74	\$ 5,290	\$ 16,360	\$ 2,466	\$ 2,850
University of Tennessee-Chattanooga	220	4,500	13,526	2,710	3,800
University of Tennessee-Martin	174	4,493	13,547	2,200	2,044
University of Tennessee-Memphis	54	6,522*	18,998*	N/A	3,240**
Austin Peay State University	274	4,635	13,947	1,900	2,900
East Tennessee State University	180	4,487	13,799	1,998	1,864
Middle Tennessee State University	166	4,576	13,888	2,070	2,680
Tennessee State University	130	4,384	13,696	1,710	3,880
Tennessee Technological University	58	4,396	13,708	2,720	3,112
University of Memphis	192	5,084	14,898	1,590	2,658
Chattanooga State Technical Community College	0	2,413	8,827	N/A	N/A
Cleveland State Community College	0	2,395	8,809	N/A	N/A
Columbia State Community College	0	2,383	8,797	N/A	N/A
Dyersburg State Community College	0	2,393	8,807	N/A	N/A
Jackson State Community College	0	2,395	8,809	N/A	N/A
Motlow State Community College	0	2,389	8,803	N/A	N/A
Nashville State Community College	0	2,367	8,781	N/A	N/A
Northeast State Technical Community College	0	2,403	8,817	N/A	N/A
Pellissippi State Technical Community College	30	2,413	8,827	N/A	N/A
Roane State Community College	0	2,397	8,811	N/A	N/A
Southwest Tennessee Community College	0	2,397	8,811	N/A	N/A
Volunteer State Community College	0	2,383	8,797	N/A	N/A
Walters State Community College	0	2,381	8,795	N/A	N/A

<sup>1</sup> Source –The Tennessee Higher Education Commission and the Colleges and Universities

<sup>2</sup> Includes only those Institutions that have projects which have been financed with Commercial Paper and/or Bonds.

\* The tuition figures given for University of Tennessee - Memphis are based on the College of Graduate Health Sciences.

All professional programs are priced individually and an average would not be meaningful.

\*\*The room charge shown for University of Tennessee - Memphis is an average of nine months of the Goodman House apartment rate which is the only housing offered by the university.

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**TENNESSEE STATE SCHOOL BOND AUTHORITY  
FALL TERM FULL-TIME EQUIVALENT ENROLLMENT  
HIGHER EDUCATION FACILITIES INSTITUTIONS  
FOR THE LAST TEN YEARS**

Institution <sup>1</sup>	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	% Change	
											2004-05	2000-05
Four Year Institutions												
APSU	7,336	6,939	6,278	6,079	5,769	5,671	5,721	5,816	5,968	6,072	5.7%	29.4%
ETSU**	10,185	10,070	9,936	9,664	9,507	9,364	9,638	9,792	9,549	9,450	1.1%	8.8%
MTSU	19,139	19,037	18,735	18,151	17,125	16,339	16,173	15,655	15,455	14,916	0.5%	17.1%
TSU	7,462	7,662	7,716	7,703	7,425	7,431	7,629	7,383	7,168	7,007	-2.6%	0.4%
TTU	7,562	7,559	7,509	7,554	7,327	7,212	7,227	7,112	7,287	7,230	0.0%	4.9%
UOM	15,910	16,128	15,720	15,696	15,890	15,613	15,909	15,771	15,452	15,001	-1.4%	1.9%
TBR Total	67,593	67,394	65,894	64,846	63,043	61,629	62,298	61,529	60,879	59,676	0.3%	9.7%
UTC	7,317	7,326	7,138	7,050	6,955	6,832	7,019	7,040	6,816	6,608	-0.1%	7.1%
UTK*	23,642	23,141	22,730	23,221	23,183	22,960	23,277	22,476	21,819	21,528	2.2%	3.0%
UTM	5,833	5,570	5,265	5,311	5,379	5,324	5,278	5,480	5,607	5,376	4.7%	9.6%
UTMem	3,412	2,062	2,008	1,977	1,949	1,999	2,023	2,024	1,949	1,962	65.4%	70.7%
UT Total	40,205	38,099	37,141	37,559	37,466	37,115	37,597	37,020	36,191	35,475	5.5%	8.3%
Total 4 Yr	107,797	105,494	103,035	102,404	100,509	98,744	99,895	98,549	97,070	95,151	2.2%	9.2%
Two-Year Institutions												
CSTCC	4,890	5,124	5,186	5,264	5,269	4,832	5,038	5,140	5,227	5,427	-4.6%	1.2%
CLSCC	2,103	2,088	2,224	2,200	2,318	2,083	2,158	2,176	2,376	2,111	0.7%	0.9%
COSCC	3,120	3,145	3,082	3,108	2,984	2,788	2,906	2,947	2,820	2,639	-0.8%	11.9%
DSCC	1,744	1,770	1,819	1,657	1,577	1,563	1,435	1,522	1,533	1,531	-1.4%	13.9%
JSCC	2,573	2,702	2,743	2,713	2,658	2,514	2,548	2,416	2,328	2,223	-4.8%	15.7%
MSCC	2,392	2,465	2,436	2,556	2,441	2,199	2,221	2,273	2,287	2,116	-3.0%	13.0%
NSTCC	3,142	3,334	3,112	2,968	2,879	2,607	2,601	2,513	2,422	2,459	-5.8%	27.8%
NSCC	4,074	3,889	3,769	3,757	3,631	3,548	3,527	3,492	3,357	3,112	4.8%	30.9%
PSTCC	4,963	4,963	5,013	5,208	5,151	5,079	5,080	5,258	5,217	5,003	0.0%	-0.8%
RSCC	3,603	3,850	3,775	3,767	3,647	3,474	3,797	3,675	3,720	3,688	-6.4%	3.7%
SSCC	n/a	n/a	n/a	n/a	n/a	n/a	2,805	2,887	3,193	3,740	n/a	n/a
STIM	n/a	n/a	n/a	n/a	n/a	n/a	4,532	4,472	4,660	4,900	n/a	n/a
STCC***	7,332	7,561	7,361	7,141	7,743	7,059	7,338	7,359	7,852	8,640	-3.0%	3.9%
VSCC	4,553	4,483	4,426	4,525	4,295	4,138	4,107	4,198	4,236	4,129	1.6%	10.3%
WSCC	3,826	3,864	4,067	3,867	3,909	3,665	3,594	3,666	3,807	3,731	-1.0%	4.4%
Total 2 Yr	48,315	49,238	49,013	48,729	48,502	45,550	46,349	46,635	47,181	46,809	-1.9%	6.1%
Grand Total	156,112	154,732	152,048	151,133	149,011	144,294	146,244	145,184	144,251	141,960	0.9%	8.2%
												10.0%

Source--The Tennessee Higher Education Commission

\*Includes UT Space Institute and UT Veterinary College

\*\*Includes ETSU Medical School

\*\*\*Contains combined totals for STIM and SSCC from 1996-99

<sup>1</sup> APSU = Austin Peay State University, ETSU = East Tennessee State University, MTSU = Middle Tennessee State University, TSU = Tennessee State University, TTU = Tennessee Technological University, UOM = University of Memphis, UTC = University of Tennessee at Chattanooga, UTK = University of Tennessee at Knoxville, UTM = University of Tennessee at Martin, UTMem = University of Tennessee at Memphis, CSTCC = Chattanooga State Technical Community College, CLSCC = Cleveland State Community College, COSCC = Columbia State Community College, DSCC = Dyersburg State Community College, JSCC = Jackson State Community College, MSCC = Motlow State Community College, NSTCC = Northeast State Technical Community College, NSCC = Nashville State Community College, PSTCC = Pellissippi State Technical Community College, RSCC = Roane State Community College, SSCC = Shelby State Community College, STIM = State Tennessee Institute in Memphis, STCC = Southwest Tennessee Community College, VSCC = Volunteer State Community College, WSCC = Walters State Community College

## TENNESSEE STATE SCHOOL BOND AUTHORITY PROJECTS

The Projects that have been financed through the sale of bonds primarily consist of student residence facilities, student activities centers, garage or parking adjuncts, stadiums, equipment and land. Such Projects are income-generating enterprises for which there is imposed an appropriate fee or charge to be paid by the student, faculty, staff or other users of the respective Projects.

The Authority has financed with bonds 136 Projects (excludes the projects to be financed with the Offered Bonds), 72 of which are located on the four campuses of the University of Tennessee, 7 at Austin Peay State University, 9 at East Tennessee State University, 19 at Middle Tennessee State University, 7 at Tennessee State University, 3 at Tennessee Technological University, 12 at the University of Memphis, 1 at Chattanooga State Technical Community College, 1 at Columbia State Community College, 1 at Nashville State Community College, 3 at Southwest Tennessee Community College (formerly State Technical Institute in Memphis and Shelby State Community College) and 1 at Volunteer State Community College.

The Authority has approved for financing through Commercial Paper portions of 95 Projects (includes the projects to be financed with the Offered Bonds), 42 of which are located on four of the campuses of The University of Tennessee, 3 at Austin Peay State University, 10 at East Tennessee State University, 11 at Middle Tennessee State University, 5 at Tennessee State University, 2 at Tennessee Technological University, 6 at the University of Memphis, 1 at Cleveland State Community College, 2 at Chattanooga State Technical Community College, 1 at Dyersburg State Community College, 1 at Jackson State Community College, 1 at Motlow State Community College, 1 at Nashville State Community College, 2 at Northeast State Technical Community College, 2 at Pellissippi State Technical Community College, 2 at Roane State Community College, 1 at Volunteer State Community College, and 2 at Walters State Community College. The table below shows the amounts authorized for Projects at each institution for Commercial Paper funding and the Commercial Paper issued against such authorizations.

### Authority-Approved Projects For Commercial Paper Funding<sup>1</sup> As of June 1, 2006 (Unaudited)

<u>Projects at Institutions</u>	<u>Projects Authorized</u>	<u>Commercial Paper Issued</u>
University of Tennessee	\$ 321,154,003	\$ 46,476,437
Austin Peay State University	11,404,182	8,048,289
East Tennessee State University	61,603,965	10,340,815
Middle Tennessee State University	75,850,919	30,757,736
Tennessee State University	17,265,000	6,169,649
Tennessee Technological University	5,915,800	5,369,147
University of Memphis	25,273,800	7,572,281
Cleveland State Community College	793,000	610,193
Chattanooga State Technical Community College	3,496,200	2,268,660
Dyersburg State Community College	543,000	419,868
Jackson State Community College	812,200	603,806
Motlow State Community College	852,200	617,714
Nashville State Community College	797,000	-
Northeast State Technical Community College	1,312,200	1,059,942
Pellissippi State Technical Community College	1,952,800	1,686,282
Roane State Community College	2,532,800	2,197,479
Volunteer State Community College	852,800	442,240
Walters State Community College	1,977,200	1,773,835
Tennessee Board of Regents Totals	<u>\$ 213,235,066</u>	<u>\$ 79,937,937</u>
Institution Totals	<u>\$ 534,389,069</u>	<u>\$ 126,414,373</u>
Commercial Paper not allocated to Institutions as of June 1, 2006		<u>2,631,627</u>
Total Commercial Paper Outstanding		<u>\$ 129,046,000</u>

<sup>1</sup> See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinated Obligations; Commercial Paper" for a description of the Commercial Paper Program.

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## GLOSSARY OF CERTAIN TERMS

The following terms, as used in this Official Statement including the Appendices hereto, have the respective meanings provided below. These summary definitions do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution and Financing Agreements, copies of which are on file at the offices of the Authority and the Trustee.

**"Account" or "Accounts"** means each account or all of the accounts established pursuant to the Resolution, as the case may be.

**"Accreted Value"** means with respect to any Capital Appreciation Bonds (i) as of any Valuation Date, the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accreted Values for such Valuation Dates. For purposes of this definition, the number of days having elapsed from the preceding Valuation Date and the number of days from the preceding Valuation Date to the next succeeding Valuation Date shall be calculated on the basis of a three hundred sixty (360) day year of twelve (12) thirty (30) day months or otherwise with respect to any Series of Bonds as may be provided by the Supplemental Resolution authorizing the issuance thereof.

**"Act"** means the Tennessee State School Bond Authority Act, Sections 49-3-1201 *et seq.*, Tennessee Code Annotated, as amended from time to time.

**"Administrative Expenses"** means the Authority's expenses of carrying out and administering its powers, duties and functions in connection with the Agreements, the Projects and the Resolution, and shall include, without limiting the generality of the foregoing: administrative expenses, legal, accounting and consultant's services and expenses, the fees and expenses of the Trustee, Paying Agents and Registrar, payments to pension, retirement, health and hospitalization funds, and any other expenses required or permitted to be paid by the Authority under the provisions of the Act, the Financing Agreements or the Resolution or otherwise.

**"Annual Financing Charges"** means the amounts payable by the Boards to the Authority under the Financing Agreements for (i) the payment of principal of and premium, if any, and interest on Debt for all Projects and all Institutions, (ii) any payments to fund or replenish reserves therefor as may be required by the Resolution, regardless of Project or Institution, and (iii) any other payments required to be made by or on behalf of the Authority under or pursuant to the Resolution with respect to any Project, any Institution or the Board.

**"Authenticating Agent"** means an authenticating agent appointed pursuant to the Resolution.

**"Authority"** means the Tennessee State School Bond Authority, the corporate governmental agency and instrumentality created by the Act, or any body, agency or instrumentality of the State which shall succeed to the powers, duties and functions of the Authority.

**"Authorized Officer"** means any member of the Authority, and any other officer or employee of the Authority authorized by law, by resolution of the Authority or by a certificate of the Secretary of the Authority to perform the act or sign the document in question.

**"Bank Bonds"** means Reimbursement Obligations under Credit Facilities represented by Bonds; provided, however, that Bank Bonds do not include any Bonds issued to or held by any party providing a Credit Facility or its designee in any other capacity.

**"Board" or "Boards"** means the Board of Regents or the Board of Trustees, or both such Boards, respectively.

**"Board of Regents"** means the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee, and its successors.

**"Board of Trustees"** means the Board of Trustees of The University of Tennessee, and its successors.

**"Bond" or "Bonds"** means any Bond or Bonds issued under the Resolution, including but not limited to Variable Interest Rate Bonds, Capital Appreciation Bonds and Refunding Bonds. Bonds shall not include Subordinated Obligations.

**"Bond Year"** means the twelve month period commencing on May 1 of each calendar year and ending on April 30 of the next succeeding calendar year except that the first Bond Year shall begin on the date specified in the Supplemental Resolution authorizing the first Series of Bonds.

**"Business Day"** means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions located in the State or in any of the cities in which the principal office of the Trustee, any Paying Agent, the Registrar or the provider of a Reserve Fund Credit Facility are required or authorized by law or executive order to close or (iii) a day on which the New York Stock Exchange is closed, and (iv) with respect to a particular Series of Bonds, a day on which any provider of a Credit Facility for such Series of Bonds is located is required or authorized by law or executive order to close or as may otherwise be provided by the Supplemental Resolution authorizing such Series of Bonds.

**"Capital Appreciation Bonds"** means any Bonds as to which interest is payable only at the maturity or prior redemption of such Bonds or which bear a stated interest rate of zero. For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity or upon acceleration as provided in the Resolution, or (ii) computing the principal amount of Bonds held by the Owner of a Capital Appreciation Bond in giving to the Authority or any Fiduciary any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

**"Commercial Paper"** means all Commercial Paper issued under the Commercial Paper Resolution.

**"Commercial Paper Resolution"** means the Commercial Paper Resolution adopted by the Authority on November 18, 1997, as the same may be supplemented or amended.

**"Counsel's Opinion"** means an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the Authority (who may be counsel to the Authority) which attorney or firm of attorneys is of recognized standing in the field of law relating to municipal bonds; provided, however, that such Counsel's Opinion may take customary exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization, laws affecting creditors' rights, the exercise of judicial discretion and other matters, and may state that no opinion is being rendered as to the availability of any particular remedy or as to the limitation of remedies resulting from sovereign immunity or the partial waiver thereof, and may contain such other references and qualifications as are acceptable to the Fiduciary receiving the same.

**"Credit Facility"** means any irrevocable letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond or agreement, guarantee or similar instrument which is obtained by the Authority and is issued by a financial, insurance or other institution, the State or any subdivision, department, instrumentality or agency thereof, and the Tennessee Consolidated Retirement System or any successor entity thereto then managing and investing the State retirement funds, and which provides credit enhancement, security or liquidity in respect of the Bonds (and which, with respect to a policy of bond insurance, guarantees the payment of principal of and interest on the Bonds), not including any Reserve Fund Credit Facility.

**"Debt"** means any bonds, notes or other evidences of indebtedness issued by the Authority pursuant to the Act and the Resolution for the purpose of financing or refinancing Project Costs. Without limiting the generality of the foregoing, Debt may include "long-term Debt" (i.e., with a term of more than one year unless issued in anticipation of the issuance of Debt with a longer term) or "short-term Debt" (i.e., with a term of one year or less or issued in anticipation of the issuance of Debt with a term of more than one year), and may take the form of commercial paper.

**"Debt Service Reserve Requirement"** means, with respect to each Series of Bonds, as of any date of calculation, (i) an amount equal to the aggregate of the greatest amount of Debt Service on all Outstanding Bonds of such Series issued for each Project (calculated separately for each Project and then aggregated) payable on any interest or Principal Installment date thereafter (except that for the first such date after the date of issuance of such Bonds, interest to accrue for greater than 6 months but less than 12 months shall not be taken into account), or (ii) such greater amount, which subsequently may be reduced to an amount not less than the amount required by clause (i) above, as may be determined from time to time by the Authority by Supplemental Resolution; provided, however, that as a result of the issuance of any Series of Bonds the interest on which is generally excluded from gross income for Federal income tax purposes, the Debt Service Reserve Requirement with respect to such Series shall at no time exceed the lesser of (i) the amount that may be funded from the proceeds of such Bonds or (ii) the amount that constitutes a reasonably required reserve



with respect to such Bonds. Each determination by the Authority of the Debt Service Reserve Requirement shall be conclusive. For purposes of this definition:

- (A) **"Debt Service"** for any date or period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) the interest payable on such date or accruing during such period on the Outstanding Bonds of such Series, and (ii) the Principal Installment for such Series payable on such date or accruing during such period on the Outstanding Bonds of such Series; provided, however, that in calculating Debt Service on any future date or for any future period: (x) any Variable Interest Rate Bonds shall be deemed to bear interest at all times prior to the maturity date thereof for which the interest rate payable thereon has not yet been determined at the Debt Service Determination Interest Rate applicable thereto and (y) any interest on any Bonds secured by a Credit Facility the related Reimbursement Obligation on which is evidenced by a Bank Bond shall be calculated at the higher of the actual interest rate or, if applicable, the Debt Service Determination Interest Rate applicable to such Bonds or the maximum rate of interest permitted for any such Reimbursement Obligation (whether or not any Reimbursement Obligation has yet accrued).
- (B) **"Debt Service Determination Interest Rate"** means, with respect to any particular Variable Interest Rate Bonds, any numerical rate or rates of interest set forth, or determined as set forth, in the Supplemental Resolution authorizing such Bonds; provided, however, that such rate shall not be less than the interest rate initially borne by such Bonds.
- (C) **"Proceeds"** and **"reasonably required reserve"** shall have the respective meanings given such terms, or any comparable terms, for purposes of Section 148(d) of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

**"Defeasance Obligations"** means Investment Obligations which are rated at the time of investment in any of the two highest Rating Categories by any Rating Agency, and which (i) shall not be subject to redemption prior to their maturity other than at the option of the holder thereof and (ii) shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof.

**"Direct DTC Participant"** shall have the meaning given to such term in Appendix F - "BOOK-ENTRY ONLY SYSTEM".

**"Fees and Charges"** means, with respect to each Board, all revenues, fees, rentals and other charges and moneys received by or on behalf of the Board for the Institution, or received by or on behalf of the Institution, for which any Project is undertaken which may be available for the purpose of paying Annual Financing Charges.

**"Fiduciary"** or **"Fiduciaries"** means the Trustee (including, where appropriate, any co-Trustee or Authenticating Agent), any Paying Agent, the Registrar, or any or all of them, as may be appropriate, or any other Person appointed to act as a Fiduciary as provided in the Resolution.

**"Financing Agreement"** or **"Financing Agreements"** means the Second Program Financing Agreement dated as of November 1, 1997, by and between the Authority and the Board of Trustees, and the Second Program Financing Agreement dated as of November 1, 1997, by and between the Authority and the Board of Regents, as appropriate, in each case as supplemented and amended from time to time.

**"First Program Financing Agreements"** means the Amended and Restated Financing Agreement dated as of September 17, 1996, between the Authority and the Board of Trustees, and between the Authority and the Board of Regents. The following terms, when identified as related to the **First Program**, shall have the respective meanings given to them in the First Program Financing Agreements: **administrative fees, Annual Financing Charges, Bonds, Fees and Charges, General Bond Resolution, Legislative Appropriations and Projects**.

**"Fiscal Year"** means, with respect to the Authority, currently the twelve month period commencing on July 1 and ending on June 30 of the following year. In the event of any change in Fiscal Year resulting in an initial Fiscal Year or interim period of more or less than twelve months, Fiscal Year for purposes of the Financing Agreements shall mean the last twelve month Fiscal Year.

**"Fitch"** means Fitch IBCA, Inc., or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Fund" or "Funds"** means each fund or all of the funds established in the Resolution, as the case may be.

**"Indirect DTC Participant"** shall have the meaning given to such term in Appendix F - "BOOK-ENTRY ONLY SYSTEM".

**"Institution"** means The University of Tennessee, including all of its branches and divisions wherever located, and any institution of higher education under the supervision of the Board of Regents, as appropriate.

**"Investment Obligations"** means and include any instruments, securities, certificates, obligations or the like if and to the extent the same are at the time permitted and legal for investment of the Authority's funds pursuant to the Act or in accordance with any other law, regulation, guideline or policy, as in effect from time to time, of or applicable to the Authority with respect to investments.

**"Legislative Appropriations"** means the amounts payable to the Authority from appropriations by the General Assembly of the State to an Institution for its operation and maintenance, under and pursuant to the Act and the Financing Agreements, including but not limited to amounts deductible, by Persons other than the Boards, from such appropriations for payment directly to the Authority.

**"Moody's"** means Moody's Investors Service, Inc., or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Outstanding"** when used with reference to Bonds, other than Bonds held by or for the account of the Authority or either of the Boards, means, as of any date, Bonds theretofore or then being delivered under the provisions of the Resolution, except:

- (A) any Bonds cancelled at or prior to such date;
- (B) any Bonds (or portions of Bonds) the principal or Redemption Price, if any, of, and interest on which shall have been paid in accordance with the terms thereof;
- (C) any Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered upon exchange or transfer pursuant to the Resolution;
- (D) Bonds deemed to have been paid as provided in the Resolution; and
- (E) Put Bonds deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Bonds on the applicable tender date, if the purchase price thereof and interest thereon shall have been paid or amounts are available for such payment as provided in the Resolution, except to the extent such tendered Put Bonds thereafter may be resold pursuant to the terms thereof and of the Resolution;

unless a Supplemental Resolution provides that Bonds of a Series having the benefit of a Credit Facility shall not thereby be deemed paid if payment is provided by the Credit Facility. If principal of a Bond is paid or redeemed by the provider of a Credit Facility, the related Reimbursement Obligation shall be treated as an Outstanding Bond (when such related Reimbursement Obligation is not evidenced by Bonds designated as Bank Bonds) in lieu of the Bond so paid or redeemed, but only to the extent that principal of the Bond was so paid or redeemed, bearing interest at the interest rate provided in the Credit Facility.

**"Owner" or "Bondowner"** (when used with reference to Bonds) or any similar term, means any Person who shall be the registered owner of any Outstanding Bond.

**"Paying Agent"** means any paying agent for the Bonds of any Series and its successor or successors and any other Person which may at any time be substituted in its place, pursuant to the Resolution.

**"Person"** means any individual, corporation, partnership, limited partnership, joint venture, association, joint-stock company, trust, unincorporated association, limited liability corporation or partnership, or government or any agency or subdivision thereof, or other legal entity or group of entities.

**"Principal Installment"** means, as of any date of calculation with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds on a certain future date for which no Sinking Fund Installments have been established,

or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

**"Project"** means a Project as such term is defined in the Financing Agreements. In the Financing Agreement with each Board, "Project" is defined as buildings, structures, improvements and equipment of every kind, nature and description which may be required by or convenient for the purposes of an Institution or other things which the Board is authorized by law (at the relevant time) to undertake or use, in each case if and to the extent (i) capitalizable by the Board, including but not limited to a capital lease, and (ii) approved by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority, all subject to any permissible amendment of the Financing Agreement. See Appendix D – "Summary of Certain Provisions of the Financing Agreements – Amendment". Pursuant to legislation adopted at the 2005 session of the General Assembly, computer software (whether acquired before, at the same time as, or after the hardware needed for utilization of the software) to the extent accounted for as a capital asset shall constitute equipment for financing purposes, and projects may include agricultural land related to educational purposes of an Institution purchased from a governmental entity prior to October 1, 2005.

**"Project Cost"** means all direct capital costs and indirect capital costs of Projects, including but not limited to costs of construction and acquisition, costs of issuance of Debt, funded interest on Debt, and amounts to fund or replenish reserves as may be required by the Resolution, if and to the extent approved by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority.

**"Put Bonds"** means Bonds which by their terms may be tendered by and at the option of the Owner thereof for payment prior to the stated maturity or redemption date thereof either (i) by the Authority and by the Person and/or from the source specified in a Supplemental Resolution or (ii) without recourse to the Authority by the Person and/or from the source specified in a Supplemental Resolution.

**"Qualified Swap"** means, to the extent from time to time permitted by law, any cap, floor or collar, forward rate, future rate, asset, swap or index, price or market linked transaction or agreement, other exchange or rate protection transaction or agreement, other similar transaction (however designated) or any combination thereof, or any option with respect thereto, executed by the Authority with or guaranteed by a qualified swap counterparty either for asset or liability management purposes or otherwise pursuant to the Act or other applicable law. For purposes of this definition, **"qualified swap counterparty"** means a bank insurance company or financial institution rated, or whose long-term obligations of any nature or claims paying ability are rated, at the time of execution in one of the two highest Rating Categories of any Rating Agency.

**"Rating Agency"** means, at any applicable time, Moody's, S&P, Fitch and any other nationally recognized rating agency, or any of them, as appropriate; provided, however, that the same maintains at such time a rating on the Bonds at the request of the Authority.

**"Rating Category"** means a generic rating category of an applicable Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

**"Redemption Price"** means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon maturity or redemption thereof pursuant to the Resolution and the Supplemental Resolution pursuant to which the same was issued.

**"Refunding Bonds"** means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance pursuant to the Resolution.

**"Registrar"** means the registrar for the Bonds of any Series, and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the Resolution.

**"Reimbursement Obligation"** means any obligation of the Authority to make payments to a provider of a Credit Facility in reimbursement of or as interest on (which interest may be higher than the interest rate on the related Bond) an advance, loan or other payment made by such provider for the purpose of paying (i) the principal, Sinking Fund Installment, if any, or Redemption Price of, or interest on, any Bonds, or (ii) the purchase price, plus accrued interest, if any, of any Bonds tendered pursuant to the provisions of the applicable Supplemental Resolution, but only to the extent the principal amortization requirements with respect to such

reimbursement are equal to the amortization requirements for such related Bonds, without acceleration. Reimbursement Obligations shall not include (a) any payments of any fees, expenses, or other similar obligations to any such provider, which payments shall be Administrative Expenses or (b) any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds, which payments shall be Subordinated Obligations. Reimbursement Obligations may be evidenced by Bonds designated as Bank Bonds, which may bear a higher interest rate than the rate borne by the Bonds to which they relate.

**"Reserve Fund Credit Facility"** means (i) any irrevocable, unconditional letter of credit issued by a bank, national banking association or savings and loan association, (ii) any insurance policy providing substantially equivalent liquidity as an irrevocable, unconditional letter of credit, and which is issued by a municipal bond or other insurance company, and (iii) any other similar financial arrangement as determined by Supplemental Resolution, and which is used to fund all or a portion of the Debt Service Reserve Requirement; provided, however, that at the time of acceptance by the Authority, the provider's long term obligations of any nature or claims paying ability are rated, by each Rating Agency then rating any Outstanding Bonds, no lower than the same Rating Category (for this purpose, taking into account refinements and gradations) as the Bonds are then rated by such Rating Agency.

**"Resolution"** means the Second Program General Bond Resolution adopted by the Authority on April 27, 1998, as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms and provisions thereof.

**"S&P"** means Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, or any successor then maintaining a rating on any Bonds at the request of the Authority.

**"Serial Bonds"** means the Bonds which mature in annual or semi-annual installments of principal, which need not be equal and the first installment of which may be deferred, or Bonds so designated in a Supplemental Resolution.

**"Series" or "Series of Bonds" or "Bonds of a Series"** or words of similar meaning means the Series of Bonds authorized by a Supplemental Resolution.

**"Series Certificate"** means the certificate of determination of the Authority fixing terms, conditions and other details of a Series of Bonds in accordance with the delegation of power to do so under the General Bond Resolution and under an applicable Supplemental Resolution.

**"Sinking Fund Installment"** means, as of any date of calculation and with respect to any Bonds of a Series, so long as any Bonds thereof are Outstanding, the amount of money required by the Resolution or the applicable Supplemental Resolution or Series Certificate to be paid on a single future date for the retirement of any Outstanding Bonds of said Series that mature after said future date and which is unsatisfied as determined pursuant to the Resolution, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

**"Sinking Fund Payment Date"** means each date on which a Sinking Fund Installment is payable on the Bonds, provided that such date shall be a date on which a Sinking Fund Installment is payable as provided in or pursuant to each Supplemental Resolution.

**"State"** means the State of Tennessee.

**"Subordinated Obligations"** means any evidence of indebtedness (including but not limited to commercial paper), other than Bonds or related Reimbursement Obligations, issued by the Authority to finance Project Costs of a Project or any other indebtedness issued, or other obligations entered into (including but not limited to Qualified Swaps not entered into on a parity with Bonds), pursuant to or as permitted by, and complying with, the provisions of the Resolution.

**"Supplemental Resolution"** means any resolution adopted by the Authority pursuant to and in compliance with the provisions of the Resolution providing for the issuance of a Series of Bonds, and shall also mean any other resolution adopted pursuant to and in compliance with the provisions of the Resolution amending or supplementing the provisions of the Resolution as originally adopted or as theretofore amended or supplemented.

**"Term Bonds"** means the Bonds so designated in a Supplemental Resolution and payable in part from Sinking Fund Installments.

**"Trustee"** means the bank, trust company or national banking association appointed pursuant to the Resolution to act as trustee under the Resolution, and its successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the Resolution.

**"Valuation Date"** means with respect to any Capital Appreciation Bonds the date or dates set forth in the Supplemental Resolution authorizing such Bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds.

**"Variable Interest Rate"** means a variable interest rate or rates (or a multiple of a variable rate or rates of interest) to be borne by any Bond within a Series of Bonds. The method of computing such variable interest rate or rates shall be specified in the Supplemental Resolution authorizing such Series of Bonds. Such Supplemental Resolution shall also specify either (i) the particular period or periods of time for which such variable interest rate or rates (or a multiple of a variable rate or rates of interest) shall remain in effect or (ii) the time or times upon which any change in such variable interest rate or rates (or a multiple of a variable rate or rates of interest) shall become effective.

**"Variable Interest Rate Bonds"** means Bonds which bear a Variable Interest Rate but does not include any Bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate.

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## **SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENTS**

The following is a brief summary of certain provisions of the Financing Agreements, summaries of certain other provisions of which are contained elsewhere in this Official Statement. This and such other summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the Financing Agreements, copies of which are available at the offices of the Authority and the Trustee. For definitions of certain terms used herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS"; provided, however, that for purposes of this summary, the term "Resolution" means, collectively or individually as the context may require, the resolutions of the Authority authorizing the issuance of Debt including, without limiting the generality of the foregoing, the Higher Educational Facilities Second Program General Bond Resolution and any resolutions authorizing the issuance of notes or other obligations (including but not limited to commercial paper), in each case as amended and supplemented pursuant to the provisions thereof.

### **Approval of Projects and Project Costs**

Each Project and Project Costs shall be subject to approval by the Authority upon application therefor made by the Board in such form, substance and manner as may be prescribed by the Authority.

A Project for an Institution shall be approved by the Authority only if the aggregate of the Fees and Charges collected by the Institution in the preceding Fiscal Year is no less than two times the amount required for the payment of the aggregate (without duplication) of (i) the maximum amount of the Annual Financing Charges payable and projected to be payable with respect to all Projects (including the Project to be approved) for the Institution in any succeeding Fiscal Year, plus (ii) the maximum amount payable by the Board as First Project Annual Financing Charges with respect to all First Program Projects for the Institution in any succeeding Fiscal Year, plus (iii) the aggregate of all prior charges, pledges, liens and claims on or payable from said Fees and Charges with respect to the Institution in any succeeding Fiscal Year, including but not limited to all prior charges, pledges, liens and claims on or payable from the First Program Fees and Charges with respect to the Institution.

### **Project Funding**

The Authority will use its best efforts to finance and refinance Project Costs by the issuance of Debt or from other available funds of the Authority, in a manner and under terms deemed by the Authority in its sole discretion to be in the best interests of the Institution for which the related Project is undertaken or used.

### **Project Construction Accounts; Reallocation of Balances**

The Authority will establish a separate account (a "Project Construction Account") for each Project prior to or simultaneously with the issuance of the first Debt to finance related Project Costs. All Bond proceeds determined by the Authority to be available for the payment of Project Costs, shall be deposited in the respective Project Construction Accounts unless and to the extent otherwise provided by the Resolution.

The Authority may reallocate funds in any Project Construction Account derived from the sale of short-term Debt to other Project Construction Accounts as deemed necessary or advisable by the Authority. If long-term Debt has been sold to finance or refinance a Project, and funds in the related Project Construction Account are determined by the Authority in its sole discretion to be in excess of the amount needed for completion of the Project, the Authority shall apply such excess funds to the payment of the next scheduled debt service on Debt for such Project, to the redemption or defeasance of such Debt, or otherwise as permitted by law to the extent permitted by the Resolution.

### **Payment of Project Costs**

Disbursement of funds on deposit in Project Construction Accounts will be made upon the submission of proper documentation from the Board approved by the Authority. Submission by the Board of a request for disbursement constitutes a representation by the Board that the expenses presented for payment constitute proper and valid charges related to the Project and constitute Project Costs, and that all covenants and representations made to the Authority with respect to the Project, whether in the Agreement or otherwise, continue to be true, complete and accurate.

## **Covenants and Representations**

The Board covenants and represents with respect to each Project, among other things, that: (a) all necessary approvals or authorizations by the State (or any agency, subdivision or subentity) with respect to the Project have been or will be obtained; (b) the Board will neither (i) permit any encumbrance which materially affects the Board's ability to honor its commitments under the Financing Agreement nor (ii) assign the Financing Agreement or the Board's rights, title or interest in or to any Project; (c) the Board will operate, maintain and keep, or cause the operation, maintenance and functioning of, the Project in good repair and condition, including the provision of and payment for necessary utilities and insurance coverage in accordance with State policy; (d) the Board will comply with all laws, rules and regulations governing the Institution and the Project; and (e) the Board will take no action, nor will it fail to take any action, which would cause the Authority to violate any tax covenant with respect to any Project.

## **Annual Financing Charges; Administrative Fees; and Legislative Appropriations**

For a summary of certain provisions of the Financing Agreements relating to the establishment, payment and subordination of Annual Financing Charges, Administrative Fees and Legislative Appropriations, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the Official Statement.

## **Interest of Debtholders**

The Authority and the Board acknowledge that the existence and terms and provisions of the Agreement serve as an inducement to Debtholders to purchase, and serve to secure, Debt. Accordingly, all covenants and agreements of the Authority and the Board under the Financing Agreement are declared therein to be for the benefit of such holders. Notwithstanding the foregoing, such holders shall have no right under the Financing Agreement to directly enforce the Financing Agreement, but may do so only to the extent permitted and as provided by the related Resolution.

## **Assignments**

The Board authorizes the Authority to pledge, assign, and transfer its right to receive and collect Annual Financing Charges, Administrative Fees, and Legislative Appropriations, together with its rights to enforce the Financing Agreement. The Authority has pledged and assigned the Annual Financing Charges and Legislative Appropriations to the Trustee for the benefit of the holders of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and has granted the Trustee the legal right to enforce such pledge and assignment and the provisions of the Agreements providing for the payment thereof. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Pledge and Assignment of Annual Financing Charges and Legislative Appropriations" in the Official Statement.

## **Amendment**

Any provision of the Financing Agreement may be amended by agreement of the Authority and the Board; provided, however, that no such amendment shall adversely affect or impair in any way (i) the obligation of the Board to pay Annual Financing Charges or Administrative Fees, or (ii) the deduction from appropriations, and payment to the Authority, of Legislative Appropriations required to pay Annual Financing Charges, in the case of each of clauses (i) and (ii) at the times, in the manner and in the amounts provided in the Agreement, or (iii) any provision of the Agreement made or provided for the purpose of assuring payment of such Annual Financing Charges or Administrative Fees.

## **Additional Information**

The Board agrees to furnish to the Authority such additional information concerning the financial condition of the Board and any Institution as the Authority may from time to time reasonably request including, without limiting the generality of the foregoing, as and to the extent that the Authority shall determine that disclosure of such information is necessary in order to comply with any undertakings made by the Authority pursuant to Rule 15c2-12 of the Securities and Exchange Commission or with any other applicable legal requirements.



## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution, summaries of certain other provisions of which are contained elsewhere in this Official Statement. This and such other summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution, copies of which are available at the offices of the Authority and the Trustee. For definitions of certain terms used herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS".

### **Authorization**

The Resolution authorizes the issuance of Bonds in Series pursuant to Supplemental Resolutions, for any purpose authorized by the Act. For a summary of the conditions for the issuance of Bonds and their security and sources of payment, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the Official Statement.

### **Pledge and Assignment of Annual Financing Charges and Legislative Appropriations**

The Annual Financing Charges and Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, which are to be transferred to the Funds or Accounts held by the Trustee, if any, are pledged and assigned to the Trustee for the benefit of the Owners of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and the Trustee shall have the legal right to enforce such assignment. Regardless of such pledge and assignment, the Trustee shall have the legal right to enforce the provisions of the Agreements providing for the payment thereof in the manner provided in the Financing Agreements and the Resolution.

The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Annual Financing Charges, Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, and other moneys, securities, funds and property pledged and assigned under the Resolution and all the rights of the Bondowners under the Resolution against all claims and demands of all Persons whomsoever.

### **Certain Provisions Relating to Credit Facilities, Qualified Swaps and Other Arrangements**

The Authority may include such provisions in a Supplemental Resolution authorizing the issuance of a Series of Bonds secured by a Credit Facility as the Authority deems appropriate, including but not limited to:

- (1) So long as the Credit Facility provides security and not merely liquidity, that the providers thereof shall have all or any of the rights and remedies of the Owners of the Bonds to which such Credit Facility relates and that the related Reimbursement Obligations shall have all or any of the payment, security and other rights applicable to the Bonds to which such Reimbursement Obligations relate.
- (2) In the event that the principal, Sinking Fund Installments, if any, and Redemption Price of and interest due on any Bonds Outstanding shall be paid under the provisions of a Credit Facility, the issuer of such Credit Facility shall be subrogated to the rights of such Bondowners in accordance with the terms of such Credit Facility.
- (3) Interest on any Reimbursement Obligation calculated at any rate, whether or not higher than the interest rate on the related Bond, and principal amortization requirements with respect to such Reimbursement Obligation, may be secured by a pledge of and a lien on any of the items pledged in the Resolution for the security of the Bonds on a parity with the lien created by the Resolution. A Reimbursement Obligation shall not be secured by the Debt Service Reserve Fund unless the Bonds to which it relates are so secured. Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification, or other obligations to any such provider, which payments shall be Subordinated Obligations payable from the General Fund. All Reimbursement Obligations shall be deemed to be a part of the Series of Bonds to which the Credit Facility which gave rise to such Reimbursement Obligations relates. Reimbursement Obligations may be evidenced by Bonds designated as "Bank Bonds."

In connection with the issuance of a Series of Bonds or at any time thereafter so long as a Series of Bonds remains Outstanding, the Authority may, to the extent from time to time permitted pursuant to law, enter into Qualified Swaps relating to such Bonds. The Authority's obligation to make any payment under any Qualified Swap may be secured by a pledge of, and a lien on, the items pledged in the Resolution for the security of the Bonds on a parity with the lien created by the Resolution or be payable from or secured by amounts on deposit in the Debt Service Fund or Debt Service Reserve Fund, or shall constitute Subordinated Obligations payable from the General Fund, as determined by the Authority; provided, however, that any optional or mandatory termination payments shall constitute Subordinated Obligations. If a Qualified Swap is payable from and/or secured by the Debt Service Fund and Debt Service Reserve Fund, the Authority may provide by Supplemental Resolution for a recalculation of the Debt Service Reserve Requirement for any Bonds to take into account the Authority's debt service payment obligations on such Bonds as affected by such Qualified Swap.

### **Funds and Accounts**

For a description of the flow of funds under the Resolution and of the application of the Debt Service Fund and Debt Service Reserve Fund, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Flow of Funds" and "- Debt Service Reserve Fund" in the Official Statement.

### **Construction Fund**

The Authority shall establish in the Construction Fund, to be held by the State Treasurer or, at the direction of the State Treasurer, a separate custodian, a separate Account with respect to each Project. As promptly as practicable after the delivery of any Series of Bonds or Subordinated Obligations to pay Project Costs, the Authority shall deposit into each Project Construction Account the amount of the proceeds derived from the sale of such Series of Bonds or Subordinated Obligations, if any, as shall be directed by or pursuant to the Supplemental Resolution or other resolution or indenture authorizing the issuance thereof. Moneys on deposit in or credited to a Project Construction Account shall be used by the Authority for payment of the Project Costs of the Project to which the Project Construction Account relates. The Authority may transfer from a Project Construction Account to the General Fund such amounts as the Authority shall determine is necessary to pay Administrative Expenses of the Authority chargeable to the Project to which such Project Construction Account relates.

Upon completion of a Project the moneys, if any, remaining in the Project Construction Account for such Project, after making provision for the payment of allocable Administrative Expenses and Project Costs then unpaid, either shall be reallocated by the Authority to other Projects in accordance with the Financing Agreements or shall be applied (or, if the Debt Service Fund is then held by the Trustee, transferred by the State Treasurer to the Trustee and applied by the Trustee) as directed by the Authority to the payment of principal, Sinking Fund Installments, if any, or Redemption Price of or interest on Bonds issued for the related Project.

### **Capitalized Interest Accounts**

The Supplemental Resolution authorizing any Series of Bonds may establish a separate Account within the Debt Service Fund for each Project. Moneys in the Capitalized Interest Accounts shall be used, to the extent sufficient therefor, for the purpose of paying interest on the Series of Bonds in respect of which such moneys have been set aside, either directly therefrom or by transfer to the Debt Service Fund, prior to the payment of such interest from Annual Financing Charges.

### **Investment of Funds and Accounts**

Moneys in all Funds and Accounts shall be invested in Investment Obligations, except as may be otherwise limited by Supplemental Resolution.

Unexpended Bond proceeds and all Annual Financing Charges, Administrative Fees, and Legislative Appropriations, and investment earnings allocable thereto, held in Project Construction Accounts or in other Funds or Accounts, may be commingled for investment purposes either as a separate fund or as part of a common fund with other moneys of the Authority or the State, or otherwise; provided that (i) such investments and the income or interest earned, profits realized or losses suffered thereby shall be allocated and credited to the appropriate Funds or Accounts or otherwise in accordance with Authority and State policy, and (ii) all Funds and Accounts so commingled for investment purposes shall nevertheless be accounted for separately as required by the Resolution. Notwithstanding the foregoing, moneys on deposit with the State Treasurer (other than in connection with defeasance) may be invested at a rate or return fixed from time to time pursuant to State policy, without the necessity of allocating and crediting any particular investment (but only an amount invested) and without regard to actual investment, income, interest, profits or losses.

Except as otherwise provided in the Resolution, the Trustee or the State Treasurer, as the case may be, shall sell at the best price obtainable by the Trustee or the State Treasurer, as the case may be, through its ordinary and customary practices, or present for redemption or exchange, or as directed in writing by the Authority, any Investment Obligation held by it in any Fund or Account whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made.

### **Certain Covenants of the Authority**

For a description of the agreement of the Authority on behalf of the State, pursuant to the Act, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Statutory Covenant" in the Official Statement.

*Creation of Liens.* Until the pledge created in the Resolution shall be discharged and satisfied as provided therein, the Authority shall not issue any bonds or other evidences of indebtedness, other than the Bonds (or any related Reimbursement Obligations) secured by a prior or equal pledge of the Annual Financing Charges, Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, or any moneys and securities in the Debt Service Fund and Debt Service Reserve Fund, and shall not create or cause to be created any lien or charge equal or prior to the Bonds (or any related Reimbursement Obligations) on Annual Financing Charges Legislative Appropriations, and all rights under the Financing Agreements or otherwise to receive the same, the Financing Agreements, in each such case except as permitted by the Resolution, or on any moneys and securities in the Debt Service Fund and Debt Service Reserve Fund.

*Tax Exemption.* The Authority may include in the applicable Supplemental Resolution for any Series of Bonds any and all covenants necessary or appropriate to maintain the exclusion from gross income for purposes of federal income taxation of interest on such Bonds. See "TAX MATTERS" in the Official Statement. The Authority may issue Bonds the interest on which is not intended to be excluded from gross income, and therefore may be taxable, for purposes of federal income taxation.

*Compliance with and Amendment of Financing Agreements.* The Authority will at all times comply with the covenants, terms and conditions of the Financing Agreements and shall take all steps, actions and proceedings as may be necessary in order to require compliance by the Boards with the covenants, terms and conditions thereof, the breach of which would in any way materially adversely affect or impair the obligation of the Boards to pay Annual Financing Charges and Legislative Appropriations at the times and in the manner and amounts provided in the Financing Agreements.

The Authority will not amend any Financing Agreement in any manner that would materially adversely affect or impair the obligation of the applicable Board to pay Annual Financing Charges or Legislative Appropriations at such times, in such manner and in such amounts sufficient, together with other moneys available for the purpose, to pay the principal of and Sinking Fund Installments and interest on the Bonds as the same becomes due and payable, but reserves the right to amend the Financing Agreements in any other respect without the consent of any Fiduciary or any Bondowner.

### **Supplemental Resolutions; Amendments**

The Authority may at any time or from time to time adopt Supplemental Resolutions without the consent of Bondowners and, except as may be agreed to in or in connection with any Credit Facility or Qualified Swap, the provider of any Credit Facility or Qualified Swap, for any one or more of the following purposes: (1) to authorize Bonds of a Series and, in connection therewith, specify and determine any matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect; (2) to establish for any Series of Bonds a separate Account in the Debt Service Reserve Fund which shall be permitted to be applied solely to the payment of Bonds of such Series, provided that (i) the Bonds of such Series shall have no claim or lien on nor be payable from any other amounts in the Debt Service Reserve Fund, (ii) the Bonds of such Series shall be excluded from the calculation of the Debt Service Reserve Requirement for all other Outstanding Bonds, and (iii) the amount required to be on deposit in such separate Accounts shall be specified or calculated in a manner specified in the Supplemental Resolution authorizing the Bonds of such Series, but in no event shall such amount, after giving effect to any Reserve Fund Credit Facility deposited in any such separate Account in the Debt Service Reserve Fund, be in excess of the amount that would otherwise be the Debt Service Reserve Requirement for such Series of Bonds assuming that such Series of Bonds were the only Series of Bonds Outstanding under the Resolution; (3) to modify, amend or supplement the Resolution in any manner in order to obtain or provide for or with respect to a Credit Facility, Reserve Fund Credit Facility or Qualified Swap with respect to any Series of Bonds, so long as the Authority determines that such Supplemental Resolution does not materially adversely affect the rights of the Owners of Outstanding Bonds; (4) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution as theretofore in effect; (5) to add to the Resolution any provisions relating to the application of interest

earnings in any Fund or Account required by law to preserve the exclusion from gross income for Federal income tax purposes of interest received on any Bonds then Outstanding or to be issued or the exemption of interest received on such Bonds from State income taxation; (6) to modify or eliminate any Debt Service Reserve Requirement in excess of the minimum required therefor as provided in the definition thereof; (7) to modify, amend or supplement the Resolution in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar Federal statute, or to permit the qualification of any Bonds for sale under the securities laws of any of the states of the United States of America, and to add such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar Federal statute; (8) with the consent of the Trustee, (i) to cure any ambiguity, or defect or inconsistent provision in the Resolution, or (ii) to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect; or to make any other modification or amendment of the Resolution which the Trustee shall in its sole discretion determine will not have a material adverse effect on the rights of Bondowners, provided that in making any such determination, the Trustee may conclusively rely upon a Counsel's Opinion or certificate of any Person deemed by the Trustee in its sole discretion to be reliable; (9) to comply with the requirements of any Rating Agency in order to maintain or improve a rating on the Bonds by such Rating Agency; or (10) to modify any of the provisions of the Resolution in any respect whatsoever, provided that such modification shall be, and be expressed to be, effective only after all Bonds Outstanding at the date of the adoption of such Supplemental Resolution either shall cease to be Outstanding or the Owners of the requisite percentage of the principal amount of such Bonds shall have consented thereto.

Any modification or amendment of the Resolution and of the rights and obligations of the Authority and of the Owners of the Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution, with the written consent (a) of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds Outstanding at the time such consent is given, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Owners of at least fifty-one percent (51%) in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, or (c) in case the modification or amendment changes the amount or date of any Sinking Fund Installment, of the Owners of one hundred percent (100%) in principal amount of the Bonds of the particular Series, maturity and interest rate entitled to such Sinking Fund Installment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds. No such modification or amendment shall (a) permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, (b) permit the creation of any pledge, lien, charge or encumbrance of or upon any of the items purported to be pledged pursuant to the Resolution, which pledge, lien, charge or encumbrance would be prior to, or of equal rank with, the pledge or source of payment for the Bonds created by the Resolution, without the consent of the Owners of all Outstanding Bonds affected by such change, or deprive any Owner of any Outstanding Bond of the benefit of such pledge or source of payment for the Bonds, without the consent of such Owner, except as permitted by the Resolution, (c) create, with respect to the pledge of the items set forth in the Resolution, a preference or priority of any Bond over any other Bond without the consent of each Owner of a Bond affected by such change, or (d) reduce the percentages of the Bonds the consent of the Owners of which is required to waive an Event of Default or otherwise effect any such modification or amendment. For such purposes, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same materially adversely affects the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and all Owners of Bonds. The Trustee may receive an opinion of counsel, including a Counsel's Opinion, as conclusive evidence as to whether Bonds of any particular Series or maturity would be so affected by any such modification or amendment of the Resolution.

Notwithstanding anything in the Resolution to the contrary, the consent of Owners of any Series of additional Bonds to be issued under the Resolution shall be deemed given if the underwriters or initial purchasers for resale thereof consent in writing to any modification or amendment; provided, however, that such modification, amendment and consent are disclosed in the official statement or other offering document pursuant to which such Series of additional Bonds is offered and sold to the public.

For purposes of amendments to the Resolution, but only so long as the Credit Facility provider has not defaulted on its obligations under the Credit Facility, (i) the provider of a Credit Facility shall be considered the sole Owner of all Bonds to which such Credit Facility relates, except as otherwise provided in an applicable Supplemental Resolution, and (ii) any amendment provision of the Resolution may be waived by such provider with respect to its consent to any amendment, by an instrument in writing filed with the Authority and the Trustee.

The Authority shall furnish written notice to each Rating Agency of any amendment, change or modification of the Resolution.

### **Events of Default**

Each of the following events is an "Event of Default": (1) the Authority shall default in the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Bond when and as the same shall become due, whether at maturity or upon call for mandatory redemption or otherwise, which default shall continue for a period of thirty (30) days; (2) the pledge created in the Resolution shall, at any time and for any reason, cease to be in full force and effect or a judgment or order of any court of competent jurisdiction, or of any arbitrator or panel of arbitrators, as to which all appeals have been exhausted, shall be rendered which shall declare the pledge to be null and void, or shall declare that the pledge does not establish in any material respect the lien it purports to establish, or that the pledge is not for the exclusive benefit of the Owners of the Bonds, except as provided in or permitted by the Resolution; (3) the Authority shall fail or refuse to comply with the provisions of the Act as then in effect, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Resolution, any Supplemental Resolution, or in the Bonds, and such failure, refusal or default shall continue for a period of ninety (90) days after written notice thereof (specifying such default and requiring that such notice is a "Notice of Default" hereunder) is given to the Authority by the Trustee or to the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds; however, in the event that the default be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within such period and diligently pursued (as determined by the Trustee) until the default is corrected; (4) a court having jurisdiction in the premises shall enter a decree or order providing for relief in respect of the Authority or either Board in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Authority or either Board, or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of ninety (90) days; or (5) the Authority or either Board shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the Authority or either Board, or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any action in furtherance of the foregoing.

Notwithstanding the foregoing, nothing in the Resolution shall preclude the Authority from seeking and obtaining from the General Assembly a change in law, to limit, modify, rescind, repeal or otherwise alter the character of the pledged items or to substitute like or different sources of fees, charges, appropriations or other receipts as pledged revenues if and when adequate provisions shall be made by law for the protection of the Owners of Outstanding Bonds pursuant to the proceedings under which the Bonds are issued, including changing or altering the method of establishing fees, charges and appropriations as contemplated by the Act. The Authority (or the Trustee at the request of the Authority) shall mail to the Bondowners notice of any such change or alteration pursuant to such proviso. The Authority shall file with the Trustee, or the Trustee shall retain on file, proof of their respective mailing of such notice to Bondowners. Such change or alteration shall be deemed conclusively binding upon the Authority, each Fiduciary and the Owners of all Bonds at the expiration of thirty (30) days after the filing with the Trustee of the proof of the mailing of notice referred to above, except in the event of a final decree of a court of competent jurisdiction setting aside such change or alteration in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period.

### **Remedies**

Upon the happening and continuance of (i) any Event of Default specified in clause (1), (4) or (5) of the first paragraph under "Events of Default" above, the Trustee shall proceed, and (ii) any other Event of Default, the Trustee may proceed, and upon the written request of the Owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds or if the Event of Default arises from the failure of the Authority to duly and punctually perform the tax covenants contained in the Resolution, twenty-five per centum (25%) in principal amount of the Outstanding Bonds of such Series affected thereby, shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights: (1) by suit, action or proceeding at law or in equity in any court of competent jurisdiction, enforce all rights of the Bondowners, including the right to require the Authority to enforce the Agreements and collect the Annual Financing Charges and Legislative Appropriations payable thereunder, or to carry out any other covenant or agreement with Bondowners under the Resolution and to perform its duties under the Act, the Agreements and the Resolution; (2) bring suit upon the Bonds; (3) by action or suit, require the Authority to account as if it were the trustee of an express trust for the Owners of the Bonds; (4) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of

the Owners of the Bonds; or (5) in accordance with the provisions of the Act, declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than twenty-five percentum (25%) in principal amount of the Outstanding Bonds, to annul such declaration and consequences, but no such annulment shall extend to or effect any subsequent default or impair or exhaust any right or power consequent thereon.

All remedies conferred upon or reserved to the Owners of Bonds under the Resolution may be conferred upon and reserved in lieu thereof to the provider of a related Credit Facility authorized by a Supplemental Resolution. Nothing herein shall preclude the Authority from providing in an applicable Supplemental Resolution, or in any Credit Facility authorized thereby, that the exercise of any remedy hereunder or the waiver of any Event of Default hereunder by the Trustee or the Owner of any such Bond shall be subject to the prior written consent of the provider of any related Credit Facility.

No Owner of any Bond shall have any right to institute any suit, action, or other proceeding hereunder, or for the protection or enforcement of any right under the Resolution or any right under law unless such Owner shall have given to the Trustee written notice of the event of default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

In the case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relating to the Authority, the Board or any Institution, or any property of the Authority, the Board or any Institution, the Trustee (whether or not the principal of the Bonds shall then be due and payable by acceleration or otherwise, and whether or not the Trustee shall have made any demand upon the Authority for the payment of overdue principal and interest) shall be entitled and empowered, by intervention in such proceeding or other means (1) to file and prove a claim for the whole amount of the principal, Redemption Price, if any, and interest owing and unpaid in respect of the Bonds then Outstanding and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Owners allowed in such proceeding; and (2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same.

Prior to the declaration of maturity of the Bonds as provided in the Resolution, the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

The Trustee shall promptly mail to the Bondowners notice of each Event of Default hereunder known to the Trustee within fifteen (15) Business Days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, however, that, except in the case of default in the payment of the principal, Sinking Fund Installment, if any, or Redemption Price, if any, of or interest on any of the Bonds, or in the making of any payment required to be made into the Debt Service Fund or the Debt Service Reserve Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Bondowners.

## **Defeasance**

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect of the Resolution, subject to an election of the Authority to the contrary. Any Outstanding Bonds of any Series shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect, but subject to such election, of the Resolution if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Registrar instructions accepted in writing by the Registrar to give notice of redemption, as provided in the Resolution, on said date of such Bonds (other than Bonds which have been purchased by a Paying Agent at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to a Paying Agent as hereinafter provided prior to the mailing of such notice of redemption), (b) there shall have been deposited with any Paying Agent either (i) moneys in an amount which shall be sufficient, or

(ii) Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with such Paying Agent at the same time, shall be sufficient to pay, when due, the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Registrar in form satisfactory to it instructions to mail, as soon as practicable, a notice to the Owners of such Bonds, at their last addresses appearing upon the registry books at any time (but not more than fifteen (15) days) prior to such mailing, that the deposit required by (b) above has been made with a Paying Agent and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are expected to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds (other than Bonds which have been purchased by a Paying Agent at the direction of the Authority or purchased or otherwise acquired by the Authority and delivered to a Paying Agent prior to the mailing of the notice of redemption referred to in clause (a) hereof). Such Paying Agent shall, as and to the extent necessary, apply moneys held by it pursuant to this Section to the retirement of Bonds in amounts equal to the unsatisfied balances (determined as provided in Section 604) of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Resolution.

### **Unclaimed Moneys**

Any moneys held by a Fiduciary in trust for the payment and discharge of the principal or Redemption Price of or interest on any of the Bonds which remain unclaimed for three years (or such other period as may at the time be prescribed by the laws of the State) after the date when such principal, Redemption Price or interest, respectively, became due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for three years (or such other period as may be prescribed by the laws of the State) after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such principal, Redemption Price or interest, respectively, became due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the Authority for the payment of such Bonds.

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**BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Refunding Bonds. The Refunding Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each Series of the Refunding Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Refunding Bonds on DTC's records. The ownership interest of each actual purchaser of each Refunding Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Refunding Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Refunding Bonds, except in the event that use of the book-entry system for the Refunding Bonds is discontinued.

To facilitate subsequent transfers, all Refunding Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Refunding Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Refunding Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Beneficial Owners of the Refunding Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Refunding Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Refunding Bond documents. For example, Beneficial Owners of the Refunding Bonds may wish to ascertain that the nominee holding the Refunding Bonds for

their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to Cede & Co. If less than all of the Refunding Bonds of a maturity within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity of such Series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Refunding Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Refunding Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption premium, if any, payments on the Refunding Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or any Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Authority or any Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or any Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct or Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Refunding Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be prepared and delivered to DTC.

THE FOREGOING INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM DTC, A SOURCE THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE AUTHORITY, NOR THE TRUSTEE, REGISTRAR AND PAYING AGENT, CAN MAKE ANY ASSURANCE THAT DTC OR THE DTC PARTICIPANTS WILL ACT IN A MANNER DESCRIBED HEREIN, NOR WILL THEY HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC ANY DIRECT DTC PARTICIPANT, OR BY ANY DIRECT DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM IF ANY, OR INTEREST ON REFUNDING BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC OR ANY DTC PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATIONS TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND DOCUMENTS TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF REFUNDING BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE REFUNDING BONDS.

So long as Cede & Co. is the registered owners of the Refunding Bonds, as nominee for DTC, references in the Official Statement to the Bondholders or registered owners of the Refunding Bonds (other than under the caption "Tax Matters" in the Official Statement) shall mean Cede & Co. or any other DTC nominee, as aforesaid, and shall not mean the Beneficial Owners of the Refunding Bonds.

## SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE UNDERTAKING

The following is a brief summary of certain provisions of the Continuing Disclosure Undertaking. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Continuing Disclosure Undertaking, copies of which are available at the offices of the Authority. For definitions of certain terms used but not defined herein, see Appendix C - "GLOSSARY OF CERTAIN TERMS".

The Authority has authorized a Continuing Disclosure Undertaking (the "Undertaking") with respect to the Offered Bonds to assist the Underwriters in complying with U.S. Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule"). In the Undertaking, the Authority will agree to provide the Annual Financial Information described below with respect to each fiscal year of the Authority, commencing with the fiscal year ending June 30, 2006, by no later than 7 months after the end of the respective fiscal year, to (i) each nationally recognized municipal securities information repository ("NRMSIR") and (ii) the state information depository, if any, operated by or on behalf of the State for purposes of the Rule ("SID"; as of the date hereof, there is no SID).

"Annual Financial Information" means updated versions of the following financial information and operating data contained in the Official Statement relating to the Offered Bonds with respect to the Authority, for each fiscal year of the Authority:

- Outstanding Bonds (see "The Authority – Outstanding Indebtedness of the Authority")
- Authorized and Outstanding Commercial Paper (see "Security and Sources of Payment for the Bonds – Subordinated Obligations; Commercial Paper")
- Appendix B – Selected Statistical Information

The descriptions contained above are of general categories or types of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided in lieu of such information.

Annual Financial Information will include the annual financial statements of the Authority, audited by such auditors as shall then be required or permitted by State law ("Audited Financial Statements"), if available, or unaudited financial statements. If not provided as part of Annual Financial Information by the date referred to above, because not available, the Authority will provide Audited Financial Statements, when and if available, to each NRMSIR and the SID. Audited Financial Statements will be prepared in accordance with generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them ("GAAP"). Audited financial statements for at least the last five fiscal years are included in the Authority's Annual Reports which have been filed with each NRMSIR.

In the Undertaking, the Authority also agrees to provide, in a timely manner, notice of each of the following events with respect to the Offered Bonds, if material, to (i) either the Municipal Securities Rulemaking Board ("MSRB") or each NRMSIR and (ii) to the SID: principal and interest payment delinquencies; non-payment related defaults; unscheduled draws on debt service reserves reflecting financial difficulties; unscheduled draws on credit enhancements reflecting financial difficulties; substitution of credit or liquidity providers, or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the security; modifications to rights of security holders; bond calls; defeasances; release, substitution, or sale of property securing repayment of the securities; and rating changes. The Authority will also provide, in a timely manner, notice of any failure of the Authority to provide the Annual Financial Information by the date specified above to (i) either the MSRB or each NRMSIR and (ii) the SID.

The Authority may satisfy its obligations under the Continuing Disclosure Undertaking to file any notice, document or information with a NRMSIR or SID (i) solely by transmitting such filing to the Texas Municipal Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received a an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

The Undertaking will be effective upon the issuance of the Offered Bonds and will terminate upon the legal defeasance, prior redemption or payment in full of all of the Offered Bonds. The Undertaking, or any provision thereof, shall be null and void in the event that the Authority (i) receives an opinion of counsel to the effect that those portions of the Rule which require the Undertaking, or such provision, as the case may be, do not or no longer apply to the Offered Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (ii) delivers copies of such opinion to each NRMSIR and the SID. The Undertaking also may be amended without the consent of the holders of the Offered Bonds in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules and regulations) or in interpretations thereof, or a change in the identity, nature or status of the Authority or the type of business conducted thereby, or if an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, which is applicable to the Undertaking, all as described in the Undertaking. Copies of any such amendment are required to be delivered to each NRMSIR and the SID.

The provisions of the Undertaking shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Offered Bonds, except that beneficial owners of Offered Bonds shall be third-party beneficiaries of the Undertaking and shall be deemed to be holders of Offered Bonds for purposes of the next sentence. The obligations of the Authority to comply with the provisions of the Undertaking are enforceable by any holder of outstanding Offered Bonds; the holders' rights to enforce the provisions of the Undertaking are limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Undertaking. Any failure by the Authority to perform in accordance with the Undertaking will not constitute a default or an event of default under the resolutions authorizing the Offered Bonds or State law and shall not result in any acceleration of payment of the Offered Bonds, and the rights and remedies provided by such resolutions and applicable State law upon the occurrence of such a default or an event of default shall not apply to any such failure.

The Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of the Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent the Undertaking addresses matters of federal securities laws, including the Rule, the Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

The Authority has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in the Rule.

FORM OF PROPOSED OPINIONS OF BOND COUNSEL

[Closing Date]

Tennessee State School Bond Authority  
Nashville, Tennessee

Dear Sirs:

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
HIGHER EDUCATIONAL FACILITIES  
SECOND PROGRAM BONDS  
2006 SERIES [A] [B], \$[53,820,000] [12,485,000]**

At your request, we have examined into the validity of \$[53,820,000] [12,485,000] principal amount of Higher Educational Facilities Second Program Bonds, 2006 Series [A] [B] (the “2006 Bonds”), of the Tennessee State School Bond Authority (the “Authority”), a corporate agency and instrumentality of the State of Tennessee (the “State”).

The 2006 Bonds are issued under and pursuant to the Tennessee State School Bond Authority Act (Section 49-3-1201 et seq., Tennessee Code Annotated) as amended to date (the “Act”), the Higher Educational Facilities Second Program General Bond Resolution adopted by the Authority on April 27, 1998, as amended (the “General Resolution”) and a Supplemental Resolution of the Authority adopted on May 24, 2006 (the “Supplemental Resolution” and, collectively with the General Resolution, the “Resolution”).

We have examined the Constitution and laws of the State of Tennessee; certified copies of proceedings of the Authority authorizing the issuance of the 2006 Bonds, including the Resolution; a certified copy of a Second Program Financing Agreement by and between the Authority and the Board of Trustees of The University of Tennessee (the “Board of Trustees”) dated as of November 1, 1997, as amended to date; a certified copy of a Second Program Financing Agreement by and between the Authority and the Board of Regents of the State University and Community College System of the State of Tennessee (the “Board of Regents” and, together with the Board of Trustees, the “Boards”) dated as of November 1, 1997, as amended to date; certified copies of proceedings of the Authority authorizing the execution and delivery of said Second Program Financing Agreements (collectively, the “Second Program Financing Agreements”); such other instruments, documents, certificates and proceedings, and applicable law, as we have considered appropriate for purposes of this opinion; and a specimen 2006 Bond.

Based on the foregoing, we are of the opinion that:

1. The Authority has the right and power under the Act to adopt the Resolution and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect, is valid and binding upon the Authority and is enforceable against the Authority in accordance with its terms. The Resolution creates the valid pledge which it purports to create of the Annual Financing Charges and Legislative Appropriations (as each is defined in the Resolution), and all rights under the Second Program Financing Agreements or otherwise to receive the same, and moneys and securities held or set aside under the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution.

2. The 2006 Bonds have been duly and validly authorized and issued in accordance with the laws of the State, including the Constitution of the State and the Act, and in accordance with the Resolution, and are entitled to the benefits of the Resolution and of the Act. The 2006 Bonds are valid and binding obligations of the Authority as provided in the Resolution, and are enforceable against the Authority in accordance with their terms and the terms of the Resolution, payable solely from the Annual Financing Charges, Legislative Appropriations and other moneys and securities held or set aside under the Resolution, subject to the application thereof to the purpose and on the conditions permitted by the Resolution. The Authority reserves the right to issue additional bonds on the terms and conditions, and for the purposes, provided in the Resolution, on a parity of payment and security with the 2006

Bonds. The Authority has no taxing power, the State is not liable on the 2006 Bonds and the 2006 Bonds are not a debt of the State.

3. The Financing Agreements have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute valid contractual obligations of the Authority. You have received opinions of counsel to the Board of Regents and counsel to the Board of Trustees to the effect that the respective Financing Agreements have been duly executed and delivered by the respective Boards and constitute valid contractual obligations thereof, and we express no opinion herein with respect thereto. The State has not waived the immunity of the State (including, for this purpose, the Authority and the Boards) from suit or extended its consent to be sued with respect to the Financing Agreements. Accordingly, monetary actions against the State (including the Authority and the Boards) for breach of contractual obligations relating to the Financing Agreements may be heard and determined under current law exclusively in the Tennessee Claims Commission, an administrative tribunal, where liability may be limited to actual damages and certain costs.

4. Under the existing laws of the State, the 2006 Bonds and income therefrom are free from taxation by the State or any county, municipality or political subdivision of the State, except for estate and gift taxes and taxes on transfers, and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State.

5. Under existing statutes and court decisions, (i) interest on the 2006 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code") and (ii) interest on the 2006 Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 5, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certification of fact, contained in certifications delivered on the date hereof by the Authority, the Boards and others with respect to the use of proceeds of the 2006 Bonds and the investment of certain funds, and other matters affecting the exclusion of interest on the 2006 Bonds from gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the Boards with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of the interest on the 2006 Bonds from gross income under Section 103 of the Code.

6. The original issue discount on the 2006 Bonds, if any, that has accrued and is properly allocable to any owner thereof is excluded from gross income for Federal income tax purposes to the same extent as interest on the 2006 Bonds.

The opinions expressed in paragraphs 1, 2 and 3 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforceability is considered in a proceeding in equity or at law.

We express no opinion herein as to (i) Federal, state or local tax consequences arising with respect to the 2006 Bonds, or the ownership or disposition thereof, except as stated in paragraphs 4, 5 and 6 above, (ii) Federal, state, or local tax matters to the extent affected by any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves, or (iii) the accuracy, adequacy, sufficiency or completeness of the Official Statement (or any update or amendment thereof or supplement thereto) of the Authority relating to the 2006 Bonds, or any other financial or other information which has been or may be supplied to purchasers or prospective purchasers of the 2006 Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or changes in law or in interpretations thereof, that may hereafter occur, or for any other reason.

Very truly yours,

**FINANCIAL SECURITY ASSURANCE INC.**

The following information, including the specimen of the Municipal Bond Insurance Policy and the Debt Service Reserve Insurance Policies, contained in this Appendix I has been furnished by Financial Security Assurance Inc. (for purposes of this Appendix, "Financial Security"). No representation is made by the Authority, the Trustee, the Paying Agent or the Registrar as to the adequacy or accuracy of such information as of the date hereof or as to the absence of material adverse changes in such information subsequent to the date hereof. None of the Authority, the Trustee, the Paying Agent or the Registrar has made any independent investigation of Financial Security or of the Municipal Bond Insurance Policy or the Debt Service Reserve Insurance Policies. There can be no assurance that Financial Security will be financially able to meet its contractual obligations under the Municipal Bond Insurance Policy or the Debt Service Reserve Insurance Policies.

**Municipal Bond Insurance Policy**

Concurrently with the issuance of the 2006A Bonds, Financial Security will issue its Municipal Bond Insurance Policy with respect to the 2006A Bonds. This Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law

**Financial Security Assurance Inc.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,459,829,000 and its total net unearned premium reserve was approximately \$1,858,167,000 in accordance with statutory accounting principles. At March 31, 2006, Financial Security's consolidated shareholder's equity was approximately \$2,856,995,000 and its total net unearned premium reserve was approximately \$1,504,103,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Municipal Bond Insurance Policy does not protect investors against changes in market value of the Offered Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Offered Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

Specimens of the Municipal Bond Insurance Policy and of the Debt Service Reserve Insurance Policies follow.





**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment



made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)





**FINANCIAL  
SECURITY  
ASSURANCE®**

**MUNICIPAL BOND DEBT SERVICE  
RESERVE INSURANCE POLICY**

ISSUER:

Policy No.:

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the [Bond Document or] Insurance Agreement. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond and all insurance policies in respect of the Bond, to the extent of any payment by Financial Security hereunder.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the



date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$ . The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. "Termination Date" means the earlier of and the date the are no longer outstanding under the Bond Document.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 501B NY (8/96)

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